Medway COUNCIL
Serving You

Audit Committee – Supplementary agenda No.1

A meeting of the Audit Committee will be held on:

Date:	30 July 2018
Time:	7.00pm
Venue:	Meeting Room 9 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

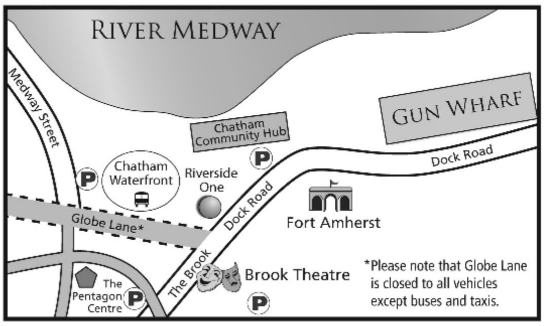
Items

5.	**Audit Completion Report 2017/18 Statement of Accounts 2017/18**	**(Pages 3 - 132)**

Please find attached an addendum report.

For further information please contact Michael Turner, Democratic Services Officer on Telephone: 01634 332817 or Email: democratic.services@medway.gov.uk

Date: 25 July 2018



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A summary of this information can be made available in other formats from **01634 333333**

If you have any questions about this meeting and you want to speak to someone in your own language please ring **01634 335577**

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Medway Council — Serving You

AUDIT COMMITTEE

30 JULY 2018

AUDIT COMPLETION REPORT 2017/18
STATEMENT OF ACCOUNTS 2017/18
ADDENDUM REPORT

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Principal Accountant

Summary

This addendum report details amendments to the Statement of Accounts presented in item 5 of the Agenda.

1. Background

1.1 The draft Statement of Accounts for 2017/18 (Agenda Item 5) has been found to contain some minor presentational errors as detailed below.

2. Narrative Report

2.1 The last sentence above the tables on page 85 of the main agenda should read “Changes to grants, in particular schools that became academies, increased the budget to £294m during the year.” Appendix 1 of this report is the amended Narrative Report incorporating this change (page 23 of the revised section refers).

3. Notes to the Core Financial Statement

3.1 Note 2 Accounting Standards that have been issued but not adopted (page 125 of the main agenda refers).

3.1.1 **IFRS 9 Financial Instruments**. The second sentence has been changed to read “The impact will be to reclassify assets currently classified as loans and receivables and available for sale, to amortised cost and fair value through profit and loss respectively based on the contractual cash flows and business model for holding the assets”. In addition a sentence that stated “Assessment of the Council’s financial assets does not anticipate any impairment” has been deleted and a reference to “gains or losses on the property fund” has been amended to “gains or losses on the investment in property funds” (page 65 of the revised section refers).

3.1.2 **IFRS 15 Revenue from Contracts with Customers**. A sentence which previously read “The Council does not have any material revenue streams within the scope of the new standard” has been deleted (page 65 of the revised section refers).

3.2 **Note 14 Officers Remuneration** (page 140 of the main agenda refers). The word "restated" has been added to each of the column headings in the table showing 2016/17 comparative figures (page 80 of the revised section refers).

3.3 Appendix 2 of report is the amended Notes to the Core Financial Statements.

4. Supplementary Financial Statements

4.1 The 2017/18 figure in the last sentence (page 193 of the main agenda) relating to income from business rate payers has been amended from £88.5m to £98.3m. Appendix 3 of this report is the amended Supplementary Financial Statements (page 133 of the revised section refers).

5. Recommendation

5.1 That the Audit Committee approves the Statement of Accounts set out in Appendix 2 of agenda item 5 as amended by Appendices 1-3 of this addendum report.

Lead Officer contact:

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Appendices

Appendix 1 – Amended Narrative Report

Appendix 2 – Amended Statement of Accounts 2017/18

Appendix 3 – Amended Supplementary Statements

Rochester Bridge, Rochester

A. Narrative Report

Table of Contents

Narrative Report

Introduction from the Chief Finance Officer – Phil Watts

I'm proud to present Medway Council's annual Statement of Accounts for the year ending 31 March 2018. This Statement provides information so that members of the public, including electors and residents, Council Members, partners and other interested parties can:

- understand the overarching financial position of the council;
- have confidence that the public money with which the council has been entrusted has been used and accounted for in an appropriate manner;
- be assured that the financial position of the council is sound and secure.

The Statement is accompanied by a Narrative Report that is designed to provide context and enable interested parties to understand Medway the place, how the council operates and its strategic direction, how we are performing and how we ensure the economical, efficient and effective use of the resources available to us. The Narrative Report also provides explanations of each of the core financial statements, their purpose and the relationship between them.

The Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2017/18.

We continue to operate in very challenging financial times, but our strong financial governance arrangements including robust monitoring and management of resources during the year have enabled us to balance and deliver on our 2017/18 budget and deliver a balanced budget for 2018/19. The core financial statements demonstrate that the financial standing of the council continues to be robust.

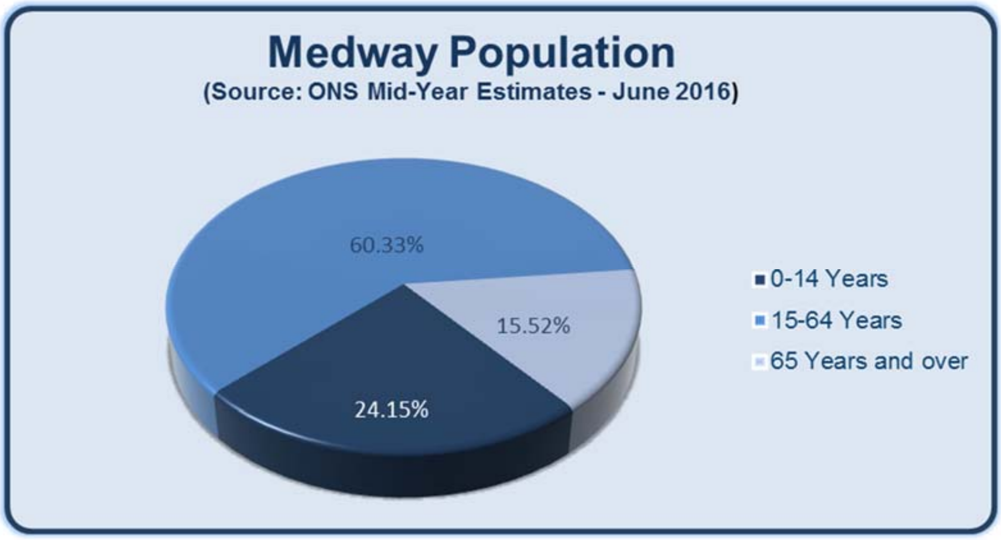
Medway the place

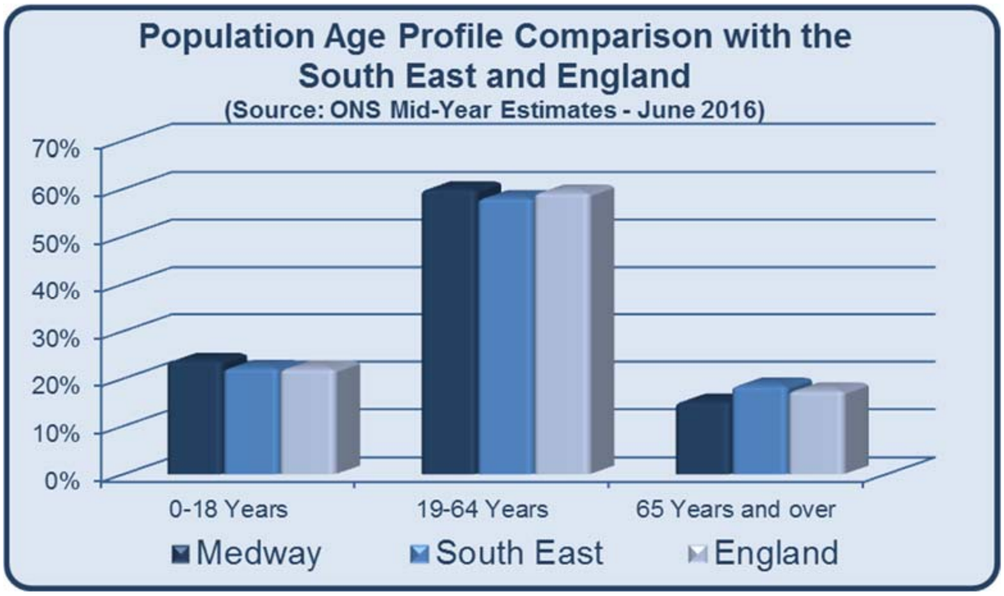
Covering an area of 192km^2 (74m^2) and situated in Kent in the south-east of England, Medway is made up of five urban centres; the towns of Chatham, Gillingham, Rochester, Strood and Rainham, and an extensive rural area that accounts for 80% of the total land area of Medway including the Hoo Peninsula and the area of Cuxton and Halling to the west of the M2.

In 1984, the closure of Chatham Dockyard had a devastating economic impact across Medway, leaving many residents jobless and many school leavers searching for prospects. Today, Medway is transformed, and proud to be home to four universities, an £86m further education campus, a University Technical College, The Royal School of Military Engineering and an array of apprenticeship and adult education opportunities. Graduates and entrepreneurs can take up specialist business accommodation at sites across Medway. Figures show that Medway's economy is worth over £4.7bn – with a growth rate ahead of the rest of the UK.

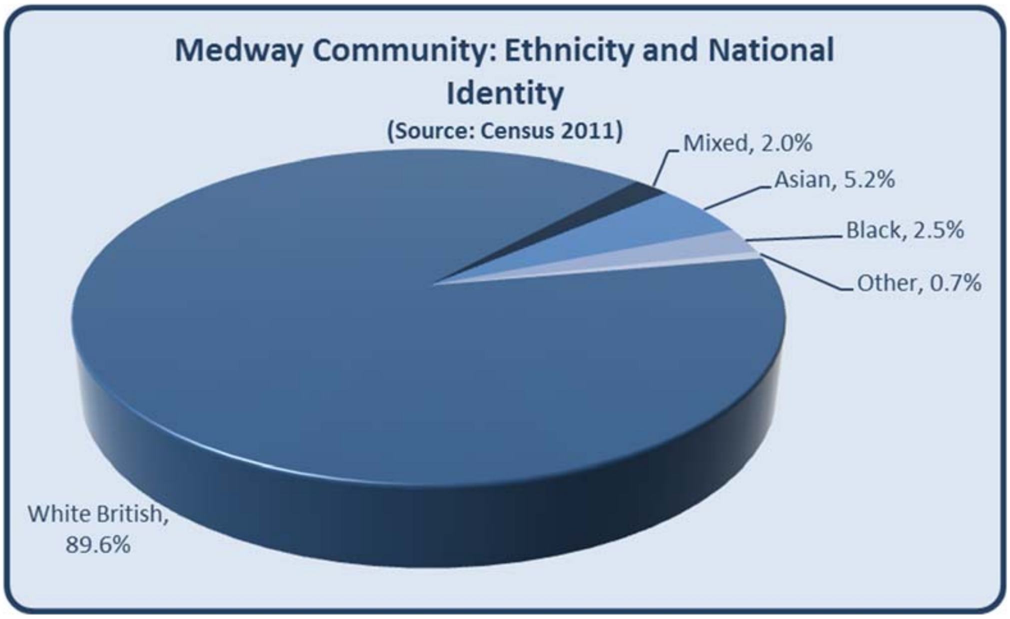
Medway's popular town centres form one of the largest conurbations in the south east outside London. There are excellent transport links from the capital, continent and beyond, including HS1 rail services with a journey time from London as short as 34 minutes. At the same time, abundant countryside and outstanding green spaces are just minutes away.

As at June 2016 Medway had an estimated population of 278,542, an increase of 5.5% since 2011. Relocating to Medway is popular with families, particularly those from South East London with over 1,000 children under five years of age having moved to Medway from within England in 2016/17. Medway's population profile is getting older; with a decrease in the proportion of people under 18 age group (24.1% in 2016 compared to 26.6% in 2001). The proportion of people of working age remained static in the same period, while the population aged 65 and over has increased from 12.6% in 2001 to 15.5% in 2016.





It is estimated that population of Medway will increase by one fifth to around 330,000 by 2035, a growth rate of +19.5%; this is significantly the above the projected growth rate for England overall (+14%), and the South East (+16%).



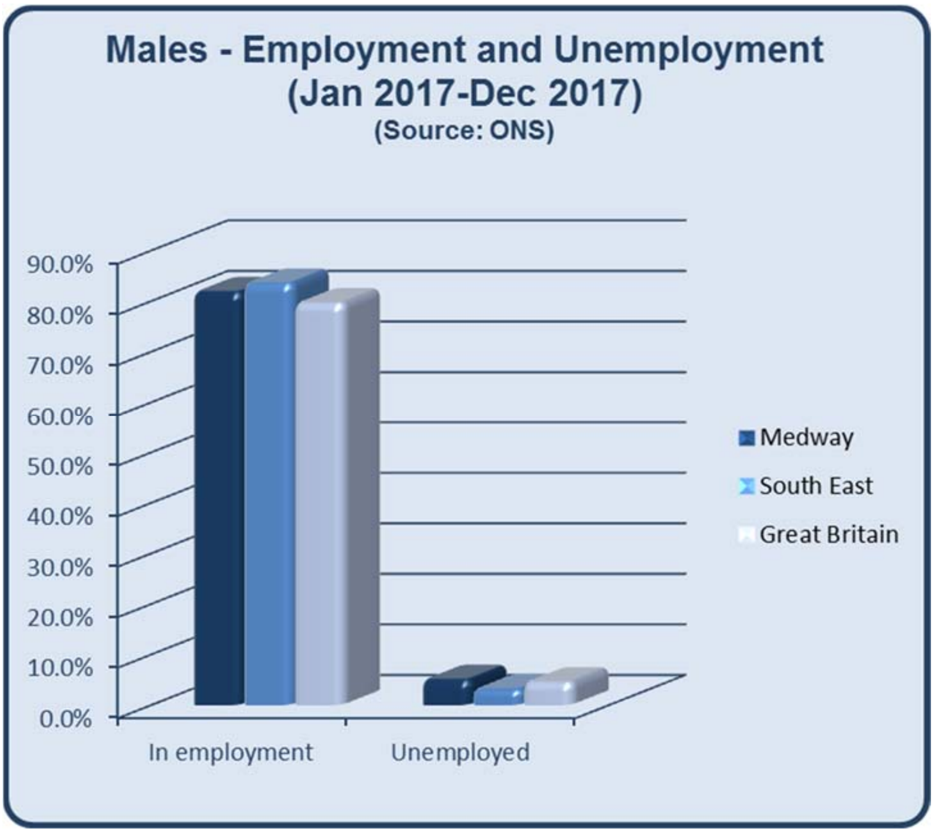
Medway's population is increasingly diverse; while 89.6% of the population are white British, since 2001 the proportion of residents from Black and Minority Ethnic backgrounds has increased from 5.4% in 2001 to 10.4% in 2011.The increase in ethnic diversity is greater for younger age groups.

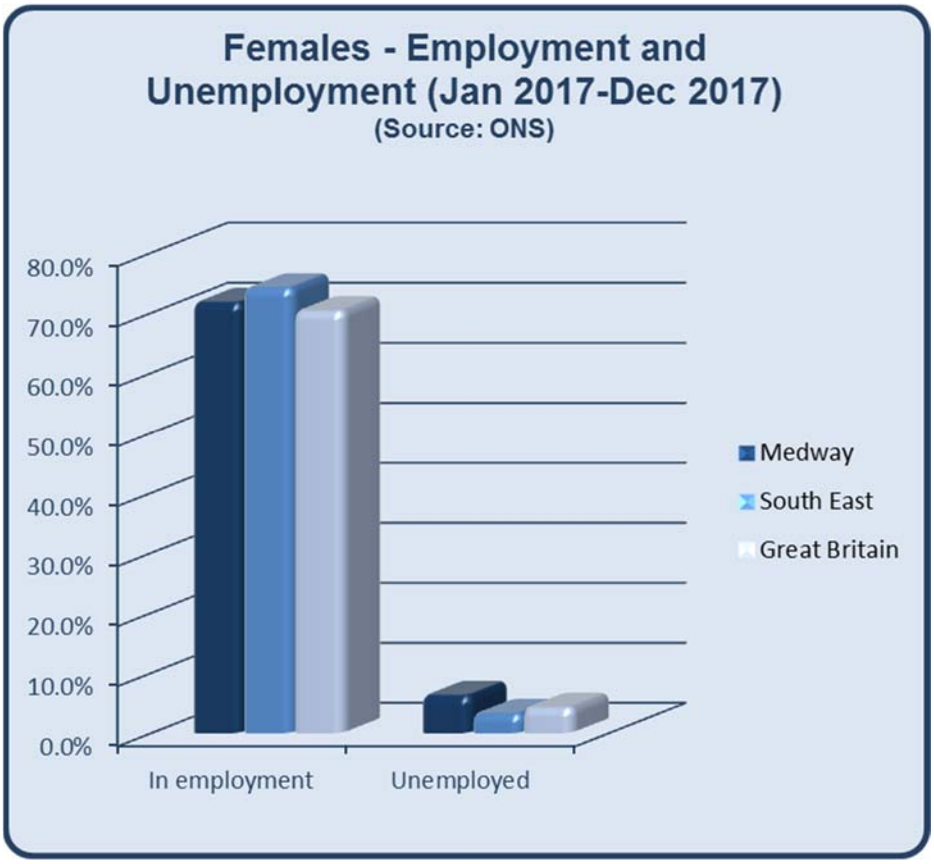
Medway attracts over 4.6m visitors each year, many enjoying our array of free festivals and events, and unrivalled military, religious and industrial heritage. The River Medway has an increasingly bustling and vibrant waterfront – distinct from its protected and highly-valued marshland areas – and is at the heart of Medway's plans.

Culturally, Medway excels. It is home to the highest concentration of listed buildings and scheduled monuments in the country, two theatres, and the Royal Engineers Museum, Library and Archive (the only designated collection in Kent), Medway has received significant Heritage Lottery Fund investment, at The Historic Dockyard Chatham, Rochester Cathedral, Eastgate House, the Huguenot Museum and the Great Lines Heritage Park.

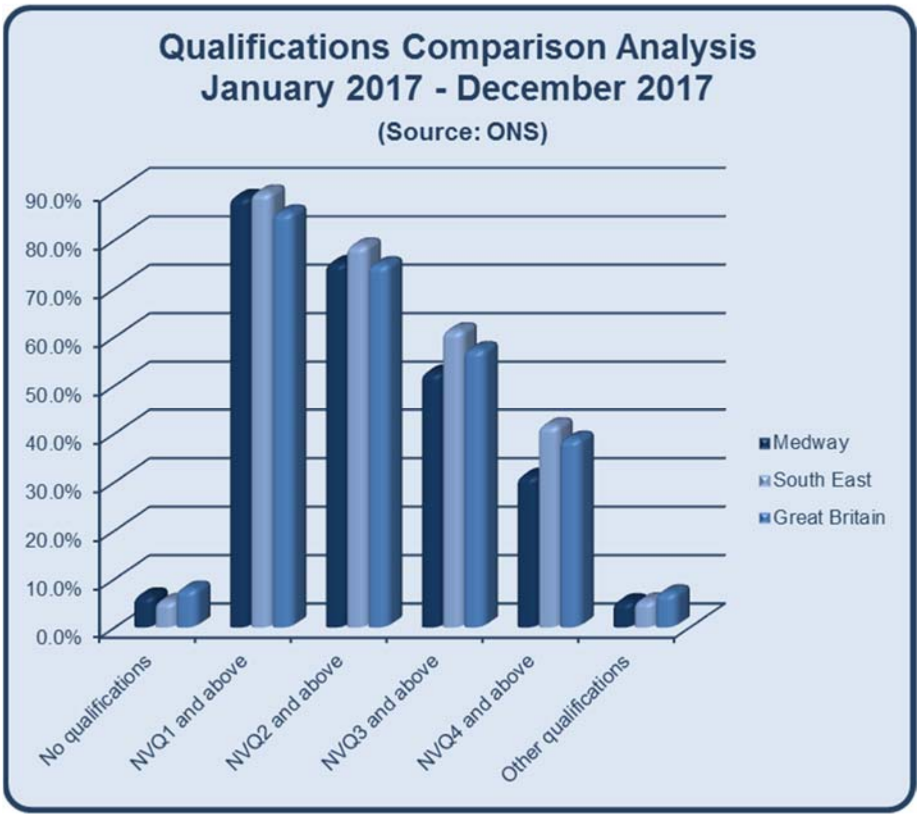
The 2011 Census showed a higher economic activity rate in Medway than the 2001 rate at 71.1% There were increases in the number of people working part-time or as self-employed, but a fall in the number of people working full-time. Also, unemployment levels increased since 2001. The latest ONS Annual Population Survey (July 2016 to June 2017) showed the economic activity rate in Medway at 78.9%, slightly higher than the last period (78.2% for Jul 2015-Jun 2016). This rate was slightly above the same figure for Great Britain (78%) for the same period, but lower than the South East rate (81%).

The employment rate for men aged from 16 to 64 was 80.1%, while the corresponding employment rate for women was 68.5%. Unemployment for males between July 2016 and June 2017 was 6%, having declined by 1.5% and female unemployment 5.8%, a decline of 1.7% from the previous year. However, Medway levels are still higher than those for the South East (3.5%) and Great Britain (4.6%).

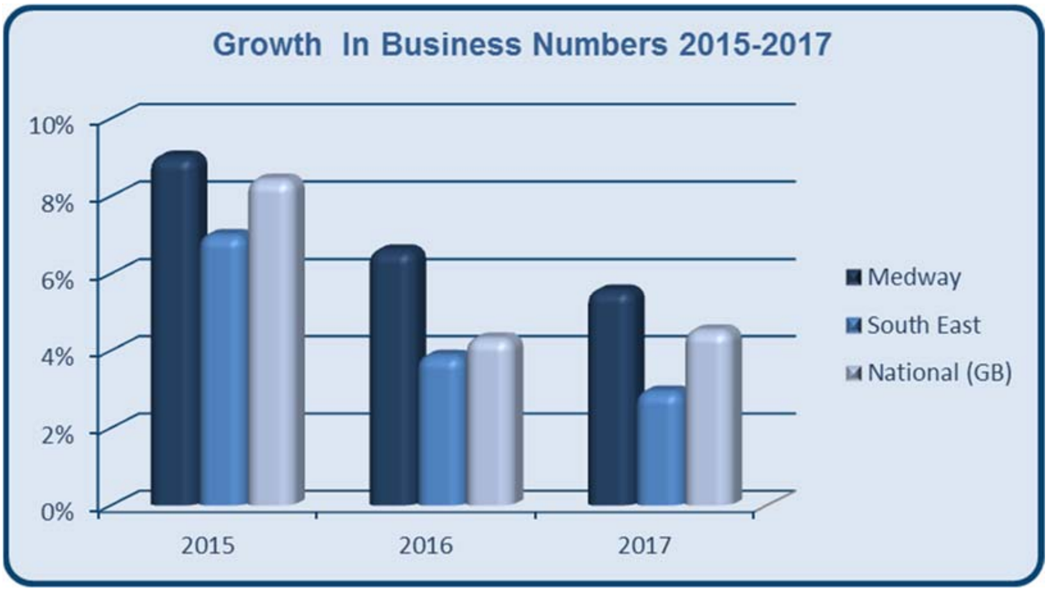




At December 2017, Medway residents were more highly qualified than they were in 2001. The rate of Medway residents with NVQ1 and above qualifications for calendar year 2017 was 88.6% (slightly higher than last year, 87%). This rate compares favourably against Great Britain's rate (85.4%), but is lower than in the South East (89.5%). There are still fewer residents with the highest level qualifications, although the rate of residents with NVQ4 and above qualifications have increased steadily from 2011 and accelerated rapidly from 25.9% at the end of 2015 to 31% at the end of 2017. However, this rate is still considerably lower than in the South East (41.4%) and Great Britain (38.6%). The gap between Medway and Great Britain and the South East on this rate has decreased in the last year.



In 2017 there were 8,425 businesses in Medway. This is a 5.58% increase on the 2016 level - higher than growth seen nationally (+4.53%) and regionally (+2.96%). Construction is Medway's largest sector accounting for just under a fifth of businesses, and represents a larger proportion of business compared the South East (13%) and United Kingdom (12%). Most business in Medway are small to medium sized enterprises with 57% of business having an annual turnover between £50,000 and £249,000 in Medway.



The number of jobs in Medway increased in 2014 to 86,200, continuing the upward trend in jobs since 2011. The private sector accounts for just under 80% of employment (68,500) with 17,700 employed in the public sector compared to 85% in the South East. Full-time jobs account for 65% (54,500) of employee jobs compared to 68% nationally.

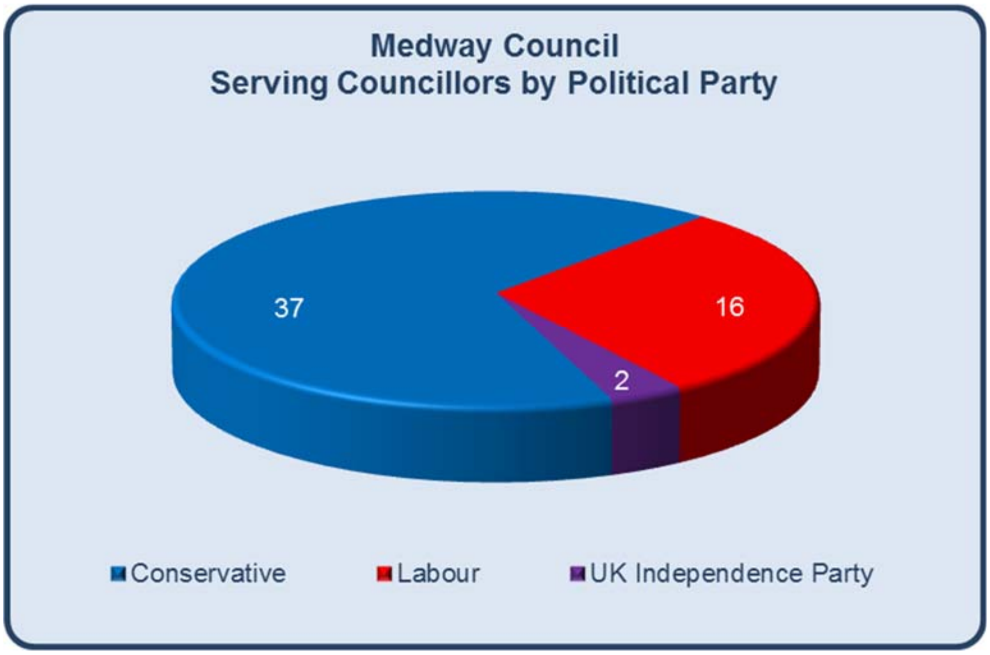
Partner agencies show an uplifting readiness to invest in Medway. Network Rail invested £26m in a brand-new train station in Rochester in 2015, and has funded improvements in all of Medway's five stations. A state-of-the-art bus station and reconfigured road network supports a vibrant atmosphere at Chatham waterfront under the gaze of the Chatham Big Screen.

Medway Council is currently delivering over £40m of government-funded transport, public realm and infrastructure projects.

Medway Council

Medway Council is a unitary authority, providing all local government services for a quarter of a million people. We look after education, environment, social care, housing, planning, business and much more, from frontline services such as rubbish collection and events like the Dickens Festival to work that goes on behind the scenes to ensure services in Medway run smoothly and cost effectively.

The community is represented by 55 elected Members, working on behalf of the 22 wards throughout Medway. The leadership of the Council is provided by the Conservative Group with the political composition of the council as follows:



The council appointed Councillor Alan Jarrett as Leader for a four-year term at the Annual Council meeting on 27 May 2015. The council has adopted the Leader and Cabinet model as its political management structure. The Leader appointed Councillor Howard Doe as Deputy Leader and eight other Members to form a Cabinet.

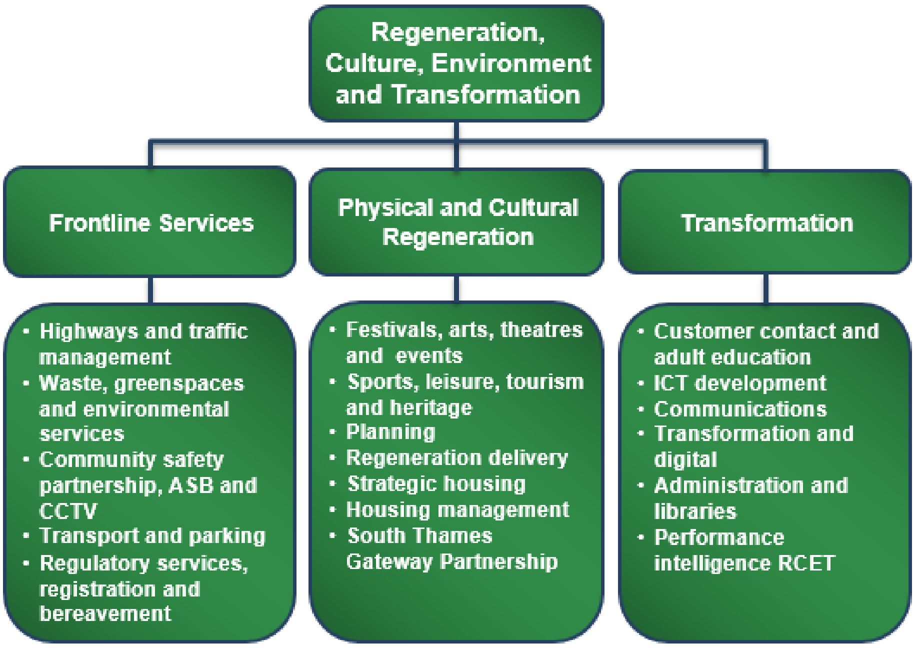
The council's decision making arrangements are set out within the Constitution. The Cabinet is responsible for implementing the council's budget and policies as well as forming partnerships with other key organisations. The Full Council is responsible for setting the budget, considering recommendations from the Cabinet and making some decisions such as changes to the constitution. Other decisions, such as those about planning applications, are made by Committees. The Leader and Cabinet are held to account by Overview and Scrutiny Committees which are made up of councillors from all the political groups represented on the council. The Mayor chairs Full Council meetings and has a traditional ceremonial role.

Our services

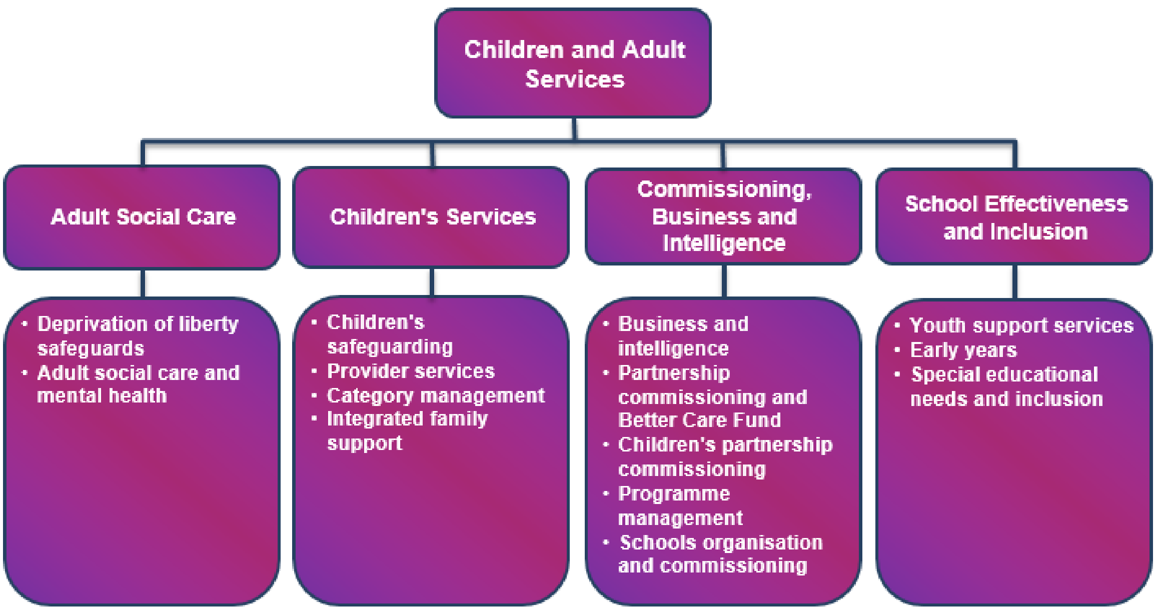
Supporting the Elected Members is an organisational structure led by the council's Corporate Management Team. The Corporate Management Team is led by the Chief Executive, Neil Davies, also the Head of Paid Service.

The Council is organised into four Directorates:

- **Regeneration, Culture, Environment & Transformation**, led by Richard Hicks – Director (and Deputy Chief Executive) , supported by:
    - Ruth Du Lieu – Assistant Director of Frontline Services
    - Tomasz Kozlowski – Assistant Director of Physical & Cultural Regeneration,, and,
    - Carrie McKenzie – Assistant Director for Transformation.



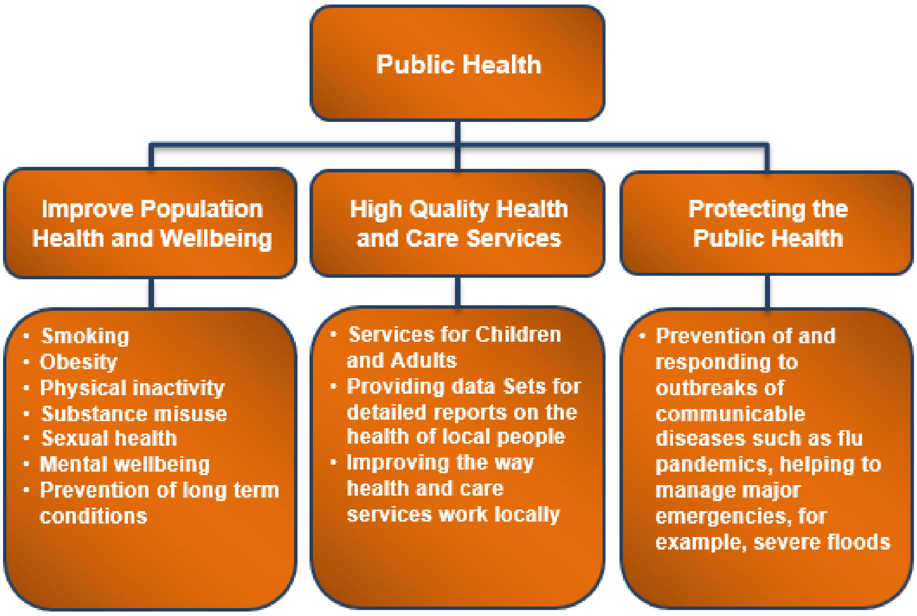
- **Children and Adults**, led by Ian Sutherland – Director, supported by:
    - Ann Domeney – Deputy Director of Children and Adults,
    - Christopher McKenzie – Assistant Director of Adult Social Care.
    - Fiona McCaul – Interim Assistant Director of Commissioning, Business & Intelligence.



Business Support, directly led by Neil Davies – Chief Executive, supported by:

- Perry Holmes – Chief Legal Officer, and,
- Phil Watts – Chief Finance Officer.

- **Public Health**, led by James Williams, Director of Public Health.



As at 31 March 2018, Medway Council employed a total of 4,078 staff (3,135fte) comprising 2,274 directly employed staff (1,945fte) and a further 1,804 schools staff (1,190fte), excluding temporary and agency staff.

Governance & Ethics

The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decision-making is efficient, transparent and accountable to local people.

The Council's Local Code of Corporate Governance within the Constitution is the cornerstone to the Council's 'local code' or governance framework by which the council is accountable to its users and wider community stakeholders. Within that framework, the Code sets out a commitment as to how the council carries out its functions, and the procedures and processes by which it undertakes to deliver our Council Plan Objectives.

The Local Code of Corporate Governance sets out the detailed arrangements that ensure the Council will comply with seven core principles:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
B. Ensuring openness and comprehensive stakeholder engagement;
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
F. Managing risks and performance through robust internal control and strong public financial management;
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Codes of conduct for Members and Officers within the Constitution set out clear guidelines based upon the Seven Principles of Public Life under section 28(1) of the Localism Act 2011; Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Each year the Council conducts a review of the effectiveness of the Local Code of Corporate Governance and publishes the results in the Annual Governance Statement, presented alongside the audited Statement of Accounts.

Our strategic direction

Our leadership vision is simple. Over the next 20 years Medway will be the most successful area of economic regeneration in the south east, creating growth for all. A place which people love and are proud of - a great place to live, work, learn and visit. By 2035 Medway will be a leading waterfront university city of 330,000 people, celebrated for its revitalised urban centres, its riverfront developments, its stunning natural and historic assets, and countryside.

We have already made good progress - tackling the legacy challenges that followed the closure of Chatham Dockyard in 1984 - high unemployment, shortage of skills, a weak economy, and health inequalities.

Medway is one of the largest urban areas in the south east outside London and the biggest regeneration zone within the Thames Gateway. Supported by significant government funding, with the potential for a further £1billion of private sector investment, we are recognised as an area of strategic development by the Ministry of Housing, Communities and Local Government (MHCLG).

Medway's ambitious priorities and future plans are rooted in and take as their starting point a complete understanding of the many important local, regional and national factors including demographics, educational attainment, our local economy, and health statistics. They are also informed by consultation and engagement with our stakeholders to ensure we understand local needs and priorities.

Medway is a place of contrasts – an area with a rich heritage, ideally located and boasting stunning green spaces – but the closure of the Chatham Dockyard and the decline of many manufacturing industries in the 1980s brought a legacy of high unemployment, health inequalities, low skills, and poor self-esteem and confidence.

Tackling these challenges has been at the heart of the council's priorities and ambitions and we recognise that there are still issues to be addressed. We are also determined to be at the vanguard of regional development taking advantage of the Thames Gateway initiative to drive growth in Medway.

The council's vision and priorities for the coming years are set out in our Council Plan, which is renewed every four years and updated annually.

Our overarching priorities are set out in our Council Plan:

- A place to be proud of
- Maximising regeneration and economic growth
- Supporting Medway's people to realise their potential

Our other key strategies which flow from this plan are:

- Local Plan (to be adopted 2019/20)
- Medway 2035 – our vision for regeneration
- Joint Health and Wellbeing Strategy for Medway which is based on our Joint Strategic Needs Assessment
- The Kent and Medway Health and Social Care Sustainability and Transformation Plan (STP) which is in development.

The council priorities have been developed with residents and users at the heart of their design and delivery for the future. Evidence-based decision making and regular reporting ensures that services are accessible, responsive and based on a robust understanding of local need.

Examples of how our work has been defined by understanding our place, local needs and views include:

New Local Plan – A comprehensive evidence base informs the content and direction of our emerging Local Plan. An extensive consultation in early 2017 sought the views of the widest range of people, making it easy for them to understand the proposals and respond.

Housing – With an ageing population and increasing demand on care services, our housing strategies have sought to develop solutions with partners that cater for local needs. Initiatives such as our new, award winning Centenary Gardens development and our Extra Care schemes are allowing older tenants, people with mobility needs or with a range of care and support needs to live independently in their own homes.

Chatham Placemaking project – Local engagement was at the heart of our plans for our Chatham Placemaking project. Research has for a long time told us that the lack of a "city centre" for Medway and the appearance of Central Chatham can impact on the attractiveness of Medway as a place to live, work, learn and visit. The main objective of the Chatham Placemaking project is to create a sense of arrival at Chatham railway station or the Waterfront bus station and town centre, creating feature spaces. Consultation and engagement sought residents' opinions on the objectives and design plans for the scheme in early 2016 and included surveys, face-to-face discussions and art consultancy workshops to discuss the public art opportunities. Ninety per cent of respondents stated that the objectives for all areas were met in the proposed designs.

Early Years – This year the council has undertaken a transformation programme of early years and early help services in order to have more joined up and whole family centred provision. The Council has also had to make some difficult decisions relating to the future provision of our children's centres in the light of significant cuts in funding available as a result of changes at central government level. The new model of joined-up working across Early Years, Early Help and Youth Services will be delivered through a hub and satellite model as a result of a comprehensive consultation process with local people who felt strongly that they wanted services to remain in the heart of their communities.

Adult Social Care Strategy – Medway Council identified that with the growing challenge associated with providing Adult Social Care to an increasing population of older adults with more complex needs, there was a need for a focused strategic approach. Cabinet approved 'Getting Better Together', our Adult Social Care strategy on 12 July 2016, and this vision drives the work undertaken in the adult social care improvement programme. This clarity of focus has helped Members and officers to engage positively in the broader reforms being progressed with the NHS and other key stakeholders around the STP.

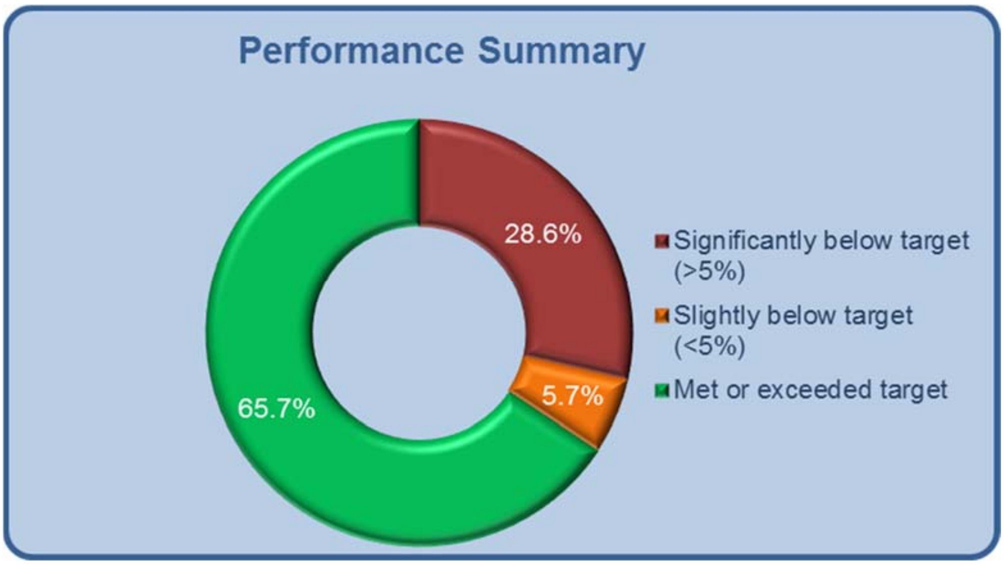
Kent and Medway Sustainability and Transformation Partnership (STP) – The Medway Clinical Commissioning Group is transforming the way it delivers health services to local residents through a new Medway Model. The council is playing a leading role in supporting this transformation, which has started with a series of community engagement events to prompt discussion and debate about where our priorities should be and how the community can play its role to improve everyone's health and wellbeing. This is a new partnership approach to delivering care and supporting wellbeing in Medway which helps people stay healthy longer, and makes sure care is better joined up and takes place closer to home.

Community Hubs – We also know that a number of our residents are not able to transact with us online and our initiative to create community hubs in our libraries allows residents to access all their services under one roof in convenient locations. Eighty-nine per cent of hub users thought of their local hub as very important or important to them.

Our performance

Performance summary

Medway's Council Plan 2017/18 sets out the 40 key measures of success we use to ensure we deliver the priorities we have committed to. We believe that success in these areas will lead to a better quality of life across Medway.



76.5% (26 out of 34*) improved over long term (compared with the average of the previous 4 quarters).

*where data available.

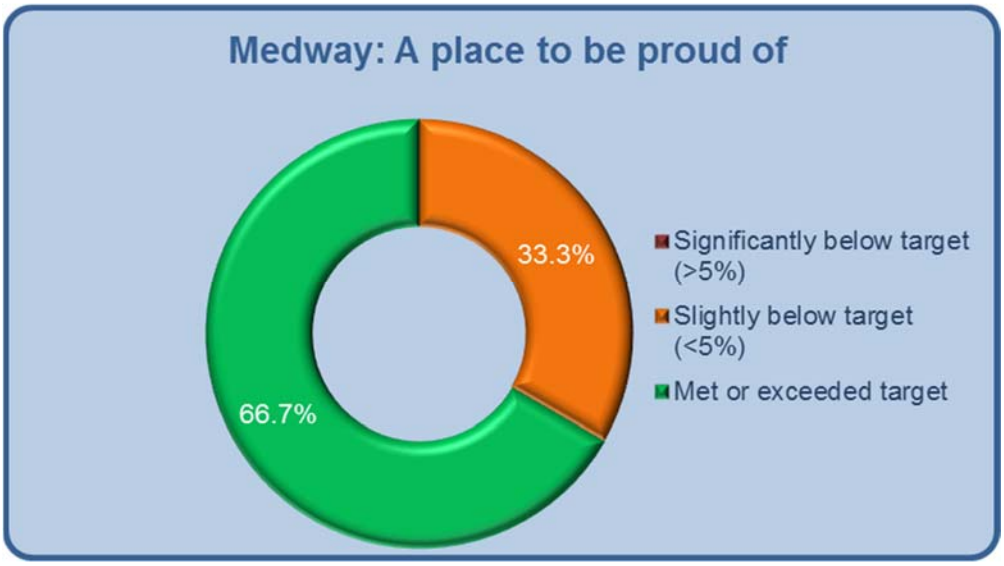
Performance against each of our key priorities:

Medway: a place to be proud of

We want Medway to be a place that local residents and businesses are proud of. We will keep the streets clean and safe and by building on what makes Medway unique - such as our heritage and sporting legacy – putting Medway on the map promotes Medway as a great place to live, work, learn and visit.

Our performance highlights from 2017/18:

- £4,360,000 of external funding was awarded for various skills related projects;
- 1,128 drug related items were removed by Community Warden Patrols;
- 25,000-35,000 attended the Medway in Flames finale event in June 2017;
- 7 Green Flags were awarded for our country parks.



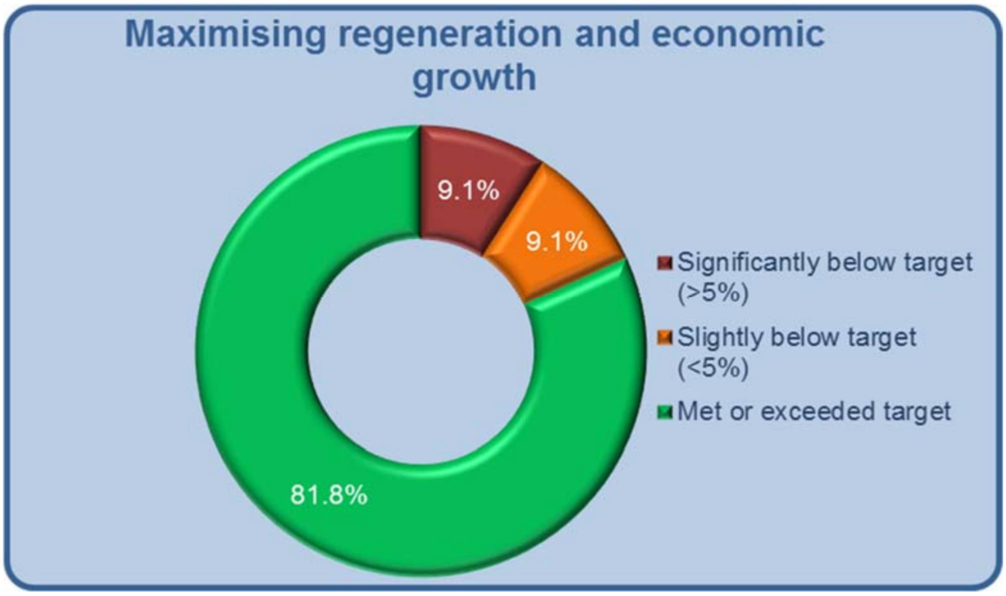
100% (3 out of 3) measures of success improved compared with average of the previous 4 quarters.

Maximising regeneration and economic growth

We want to ensure that Medway's regeneration drives economic development to encourage new and existing businesses to grow in Medway, which will benefit local residents through the creation of the new jobs and homes they need. We will work to promote jobs, skills and employability. We will work to deliver new homes to meet the needs of Medway residents, and prevent homelessness through a council-wide approach. We will also enable residents, visitors and businesses to move around Medway easily by tackling congestion hotspots and improve the public realm.

Our highlights from 2017/18:

- A further £3.7 million of external funding was awarded for Innovation Park Medway;
- £150,000 of One Public Estate funding was successfully secured for a range of feasibility studies;
- £200,000 of Controlling Migration Funding was secured to enhance services in areas with high numbers of migrants;
- Eastgate House re-opened;
- Medway Archive Centre opened;
- The new Strood railway station building opened;
- 132 affordable homes were delivered;
- There were 29 fewer families in temporary accommodation at the end of Q4 compared with Q3;
- Our Housing service was a finalist in the Landlord of the year category in the UK Housing Awards 2018;
- 26,593 gullies have been cleaned since the new Highways contract started in August.



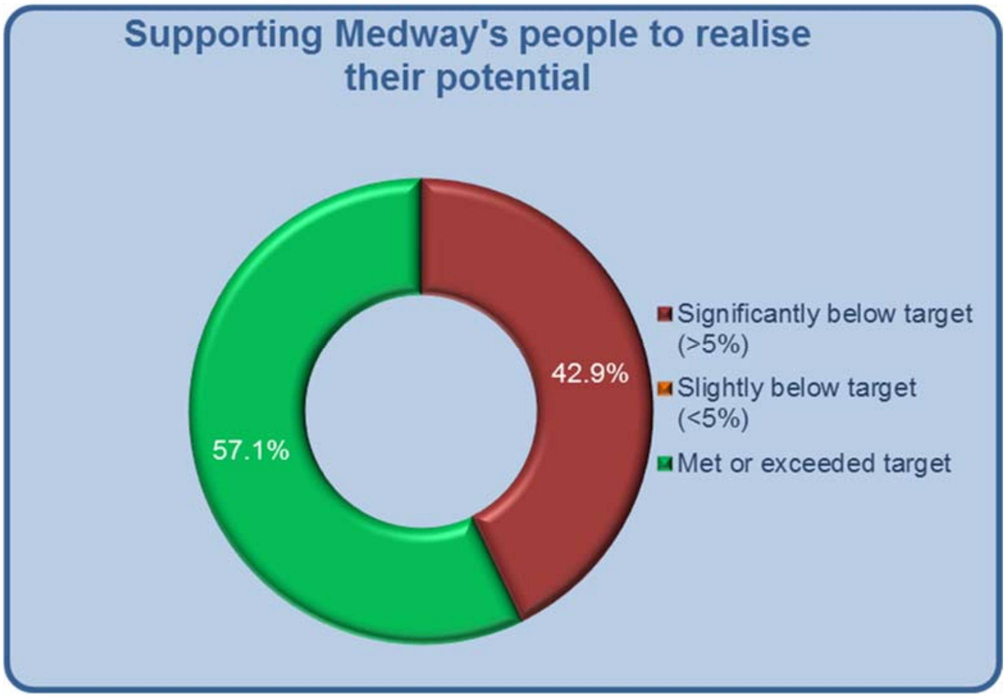
72.7% (8 out of 11) measures of success improved compared with average of the previous 4 quarters.

Supporting Medway's people to realise their potential

We want to support all of our residents and especially young people to realise their potential through the provision of services and initiatives that will help Medway become an even healthier and safer place to live. We will work to further improve everyone's health and reduce inequalities, support families to give their children the best start in life and help all children to achieve their potential in school. Working with partners we will continue to improve support for vulnerable adults, maintaining and prolonging independence.

Our highlights from 2017/18:

- The LGA peer review praised positivity of Children's safeguarding staff and the experience and stability of the First response team as well as the relevance of the Promoting Practice Programme;
- Permanent exclusions among Medway Looked After Children pupils has remained at zero for the sixth year running;
- Total Absence and Persistent Absence for All Schools is below national levels;
- 93% of LA maintained (only) primary schools are rated good or better by Ofsted;
- The Multi Agency Safeguarding Hub (MASH) went live on 3 April;
- The fourth annual Healthy Weight Summit event was delivered;
- Staying Connected, our Public Health booklet on reducing social isolation was updated;
- The first Emotional and Wellbeing school conference event was delivered;
- The 2.5 year Health Check performance has improved by 20% over the last six months;
- Medway has had the biggest improvement in Health Visiting coverage since transition of any authority in the South East;
- KS2 results show an 18% improvement since last year.



75% (15 out of 20*) measures of success improved compared with average of the previous 4 quarters.

*where data available.

Future Focus.

Areas identified for consideration and improvement in Children's Services will be targeted and monitored via the Promoting Practice Group and the actions included in the Children's Service divisional and service plans. A subgroup of the Promoting Practice Group, chaired by The Head of Safeguarding, will focus on recruitment.

Adult Social Care in Medway is continuing to embed an innovative approach to needs assessment and care planning called "3 conversations", which focuses primarily on people's strengths and community assets. There are plans within the first quarter of 2018/19 to continue to test this new approach, before rolling it out across the service in quarter two. This approach aims to support people to remain independent in their own homes and to reduce the number of people requiring long term care and support. This approach is consistent with the Care Act principles of reducing, delaying and preventing need.

Ways of working

The Council Plan sets out that we will achieve our priorities by working in the following ways:

Giving value for money: We are committed to delivering efficient and effective services for Medway residents, businesses and visitors.

Finding the best digital innovation and using it to meet residents' needs: We want to make it quicker and easier for customers to access our services online, to suit their lifestyles and expectations, while delivering value for money. We will provide support, including education and access to technology, for those who can't go online at the moment.

Working in partnership where this benefits our residents: We cannot achieve our vision for Medway on our own. We will continue to work with partners to deliver the services that matter most to the community.

By applying these ways of working, we will deliver services that meet public expectations and manage our resources effectively.

Our highlights from 2017/18:

- £20.1 million whole life benefits achieved as a result of 36 contracts awarded across all services
- 95.9% stage 1 complaints responded within target at Q4
- 61.7% satisfied/very satisfied with the way the Council runs its services (Citizen Panel Dec 2017)
- 52.2% agree the Council provides value for money (Citizen Panel Dec 2017)
- Medway's Website relaunched

Benchmarking 2017/18

Performance Measure	Compare favourably with national performance?
Temporary accommodation	✓
Obesity 4-5yrs	✓
Average days to adoption	✓
Number of looked after children per 10k	✓
No of Child protection per 10k (South East)	✓
Achievement gap/ early years/ lowest 20%/ mean	✓
Adult mental health – settled accommodation	✓
Progress 8 (school academic standard KS2-KS4)	✓
KS1 (reading, writing and maths)	✓
Children's social worker posts perm (Nat & S East)	✘
KS4 English and maths (National & S East)	✘
Primary schools judged good/better (LA maintained and academies)	✘
Smoking at time of delivery	✘

Corporate Peer Challenge

During 2017 we took part in a Corporate Peer Challenge which complemented the massive regeneration programme we are undertaking in Medway, recognising the transformation which has already taken place in Medway as 'truly remarkable' and 'positioning Medway as one of the most promising growth areas in the UK'.

It also praised Medway's strong commitment to, and many successes achieved through, partnership working.

The report also recognised that the council is 'ambitious and passionate' about supporting its communities. The reviewers made a number of recommendations that could help build on our success covering areas including transformation, our commercial strategy, IT and the skills agenda. Our Corporate Management Team has welcomed these recommendations and are working on an action plan to address them.

Risk Management

The council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The Council's Risk Management Strategy has been prepared in line with ISO31000 and is reviewed annually to ensure it remains up to date.

During 2017/18 senior management and Members received risk management refresher training.

The Strategy sets out the process by which the Council identifies, analyses, evaluates and treats the risks it faces both on a strategic and operational level. The process requires judgements to be made on the likelihood and impact of a potential risk and enables us to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact.

We maintain a Corporate Risk Register which is reviewed and updated twice each year by officers, Audit Committee and the Cabinet. The current Corporate Risk Register identifies the following key risks to the Council:

- Finances
- Children's Social Care
- Keeping vulnerable young people safe and on track
- Adult Social Care Transformation
- Government changes to Local Authority's responsibility for schools
- Delivering Regeneration
- Procurement and Savings– capacity and delivery
- Business Continuity & Emergency Planning
- Data and Information
- Impact of Welfare reform
- Successful delivery of the corporate transformation programme
- Homelessness
- Alternative service delivery models

Financial review of 2017/18

We are proud of how we have managed our finances over the past seven years, as resources available to local government have reduced. We continue to levy the lowest council tax in Kent and the eighteenth lowest of all 56 unitary authorities. We have continued to deliver excellent services and, in some cases, protect services that other local authorities have been forced to stop providing. This has been achieved by taking a forward-looking approach to everything we do including effective financial planning across all our services, our transformation programme, alternative service delivery initiatives, partnership work with other councils, taking a more commercial approach to our operations and successfully securing external funding opportunities. Together, these initiatives will help us address the financial challenges we face and form the basis for a resilient and sustainable Medway for the medium and longer term.

Medium term financial strategy

For many years we have prepared a medium term financial plan to inform our budget setting process for the coming year. In response to the continuing challenges of reductions in funding and increases in costs, we now prepare a five year Medium Term Financial Strategy (MTFS), which aims to enable the council to deliver a balanced budget, year on year.

Taking a strategic approach to planning the council's finances is vital to ensuring we continue to focus our resources on our key priorities and to plan to meet the challenges of the future for a sustainable and resilient Medway. The MTFS has been compiled following significant research to understand the population of Medway and the likely demand for council services over the next five years.

Our processes

The council's budget setting processes are robust and focus on three strands - efficiency savings, generating income and where appropriate service rationalisation. Annual revenue and capital budgets are monitored regularly and financial forecasts reported quarterly through to Cabinet. Management Action Plans are monitored by Cabinet Members and formulated at directorate level to address any forecast overspending. Year on year we achieve a favourable Value for Money opinion from our external auditors.

Transformation

We have set ourselves ambitious savings targets through our transformation programme whilst maintaining the integrity of service delivery. A Member-led Transformation Board oversees this programme and a specialist team has been working across the council to review everything we do, re-engineer our business and, where relevant, explore alternative delivery models. The programme has successfully delivered target savings for years one and two and is on track to deliver the overall savings target with a further £5million expected to be delivered in 2018/19. We envisage that the savings will, in the long term, allow us to reinvest funds back into the services that matter most to our residents such as education, social care, and front line services including roads and waste.

One successful strand of transformation is in our adult social care programme. At the heart of the programme is the model of practice called “Three Conversations” which aims to connect people with resources in their own communities to help them to stay independent for longer. Evaluation of the pilot so far has shown that it has reduced the proportion of people contacting us, who then go on to require long term care and support. We have also developed a brokerage function that now manages all placement activity for Adult Social Care. Now successfully tested, the model will be rolled out further across Adult Social Care.

Alternative delivery models

Shared services - Medway launched its first shared service, a building control service, for Medway, Gravesham and Swale in 2007 and since then the number of services delivered through shared arrangements has grown significantly. Medway hosts shared service arrangements with Gravesham to provide audit and counter fraud services, legal services, payroll and HR services. We are now exploring more opportunities for sharing back office functions with neighbouring authorities in the North Kent Cluster of Dartford, Gravesham, Maidstone, Medway and Swale.

Our JV company Medway Norse was established in 2013 to provide services to the council more efficiently, giving better value for money, growing the business by taking on external commercial contracts and increasing employment opportunities for local people. Medway Norse is now responsible for activity amounting to just under £16.5million per annum and since 2013 has taken on the provision of a number of our services including facilities management, grounds maintenance and SEN transport. Medway Council receives 50 per cent of any surplus.

Medway Commercial Group (MCG) has been set up as a Local Authority Trading Company (LATCo) and is responsible for the delivery of CCTV, Telecare, out-of-hours, lone worker solutions and other personal alarm services. MCG is forecast to contribute by way of cost subsidy reduction and we have ambitious plans for further services to transfer to MCG. Based on the success of initiatives such as providing services to schools, we anticipate that MCG will be the vehicle for our traded services in future. During the year, a new staffing agency, Ocelot People Services, started trading through MCG with a view to reducing the cost of agency staff to the council. These traded services are expected to generate profits that will be returned in the form of dividends to the council as the sole shareholder.

The Leader and Cabinet have encouraged officers to be more adventurous and look to invest in property. Over the past two years £23million has been invested in several property funds, generating average returns of 4.5 per cent. More recently the Council agreed a £20million addition to the capital programme to invest directly in property and a suitable partner is currently being sought to take this forward.

This summer the council approved the creation of a Housing Company to carry out development and invest in property to help meet our ambitious housing delivery targets. Medway Development Company Limited will be seeking to build houses and carry out other commercial activity for profit, with social value by-products. This will also support the delivery of the council’s ambitious regeneration programme, such as the prestigious Chatham Waterfront site, which will be de-risked in advance, to attract high profile development and maximise benefits for Medway.

We also aggressively seek to manage our costs and increase our income streams through an innovative approach to other areas of our business including category management, our property strategy, our people strategy and our ICT strategy. Although significant challenges remain on the horizon, we are confident this continued approach will stand Medway in good financial stead for the future.

General Fund

The revenue account known as the General Fund relates to the day-to-day operational cost of providing the council's services.

In February 2017 the council set its Budget Requirement for 2017/18 at £293m, financed by £46m of retained Business Rates, £141m of Government Grants and £106m of Council Tax income. To support the budget, the council agreed an increase of 4.994% in the level of Council Tax from that charged in 2016/17. This resulted in a Band D Council Tax of £1,296.56. Changes to grants, in particular as schools become academies, increased the budget to £294m during the year.

How the Authority's Budget has Changed		
	£'000	£'000
Budget requirement 2016/17	309,119	
Changes in function and funding	3,104	
Adjusted Base Budget		**312,223**
Inflation	700	
Other cost pressures	5,485	
Service pressures	5,144	
Efficiency and other savings	(29,068)	
		(17,739)
Budget Requirement 2017/18		**294,484**
Financed By:		
Non-Domestic Rates (NNDR)	46,302	
Revenue Support Grant (RSG)	18,848	
Other Specific Grant	123,136	
Council Tax	106,148	
Reserves	50	
Total		**294,484**

Summary of the Local Government Finance Settlement 2017/18				
	Final 2016/17	**Final 2017/18**	**Change**	
	£'000	**£'000**	**£'000**	**%**
NNDR	43,035	46,302	3,267	7.6%
Revenue Support Grant	28,374	18,848	(9,526)	(33.6%)
Total	**71,409**	**65,150**	**(6,259)**	**(8.8%)**

The tables above show that 2017/18 was a financially difficult year with an 8.8% cut in Local Government Finance Settlement against the comparable figure for 2016/17. This pressure will continue into 2018/19 where funding has been reduced by a further 8.4%.

Medway's joint submission to pilot 100% business rate retention, in a pooled arrangement with Kent County Council, Kent Fire and Rescue Service and the twelve lower tier Kent authorities, was one of only ten successful bids. Under the terms of these new pilots, local authorities will retain 100% of all rates collected, but will no longer receive Revenue Support Grant. The baseline additional rates retained will be used to offset the loss of grant and the balance will be returned to Government in the form of an adjusted tariff. In terms of the baseline, this should have a fiscally neutral effect, however the benefit to local authorities in the pilot comes from being able to retain the other 50% of business rates growth achieved above baseline since 2013.

An important facet of the pilot is that Medway will join the Kent business rates pool for the first time and there are a number of variables affecting the additional resources that the pilot scheme could yield, including collection rate assumptions and appeals provisions across thirteen separate collection funds. The actual implications for 2018/19 revenue budgets won't be known until the NDR1 forms have been collated and the distribution methodology applied. Whilst the initial offer for the new pilot areas was for one year only, it remains to be seen if pilot status will be allowed to continue for 2019/20. This would be sensible given the Government's plans to introduce the 75% scheme from 2020/21.

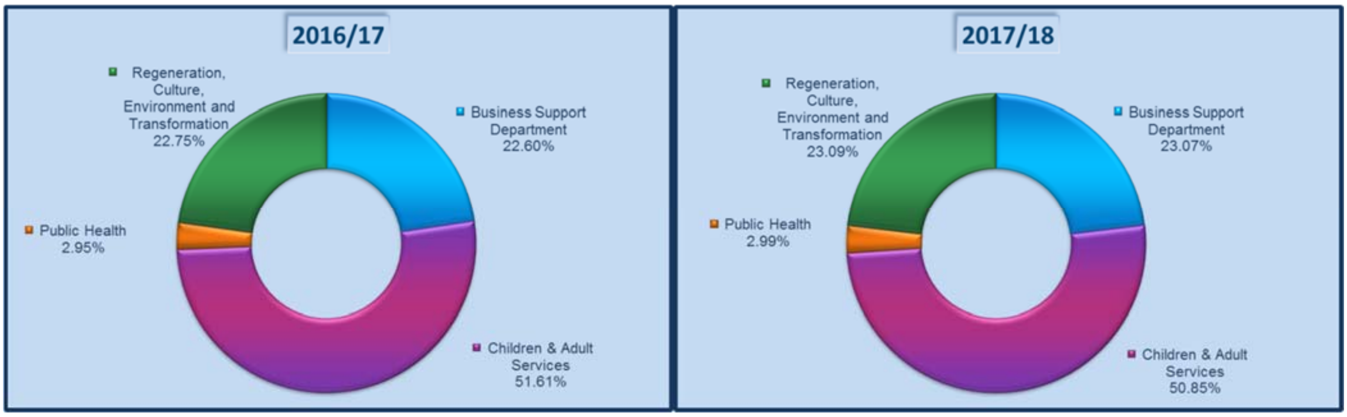
Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	127,346	(120,135)	7,211	7,756	(545)
Children & Adult Services	280,674	(62,313)	218,362	218,815	(453)
Regeneration, Culture, Environment and Transformation	127,444	(53,170)	74,273	73,834	439
Public Health	16,505	(2,115)	14,390	14,390	0
Sub-total Services	**551,969**	**(237,733)**	**314,236**	**314,796**	**(559)**
Amounts included within management accounts but excluded from services within statutory accounts:					
Medway Norse	0	(262)	(262)	(263)	1
Digitalisation Savings	0	0	0	0	0
Investment Properties	0	(371)	(371)	(411)	40
Sub-total excluded from services within Statutory accounts	**0**	**(634)**	**(634)**	**(674)**	**41**
Sub-total Services reported within management accounts	**551,969**	**(238,366)**	**313,603**	**314,121**	**(518)**
Levies	1,252	0	1,252	1,113	139
Depreciation Credit	0	(29,947)	(29,947)	(29,947)	0
Interest & Financing	9,297	0	9,297	9,197	101
Total Net Expenditure	**562,518**	**(268,314)**	**294,204**	**294,484**	**(279)**
Funding:-					
Contribution from Reserves	0	(50)	(50)	(50)	0
Revenue Support Grant	0	(18,848)	(18,848)	(18,848)	0
Non-Domestic Rates Retention	0	(46,302)	(46,302)	(46,302)	0
Council Tax	0	(106,148)	(106,148)	(106,148)	(0)
Dedicated Schools Grant	0	(90,263)	(90,263)	(90,264)	0
Other School Grants	0	(4,491)	(4,491)	(4,491)	0
Other Specific Grants	0	(4,965)	(4,965)	(4,965)	0
Education Support Grant	0	(378)	(378)	(378)	0
New Homes Bonus	0	(5,146)	(5,146)	(5,367)	221
Public Health Grant	0	(17,671)	(17,671)	(17,671)	(0)
Total Funding	**0**	**(294,262)**	**(294,262)**	**(294,484)**	**221**
Total Funding and Expenditure Variance			**(58)**	**0**	**(58)**

Amounts shown above for Council Tax and Non-Domestic rates are derived from the Collection Fund. These figures differ from the amounts shown in the Comprehensive Income and Expenditure Account due to timing differences in the recognition of surpluses and deficits.

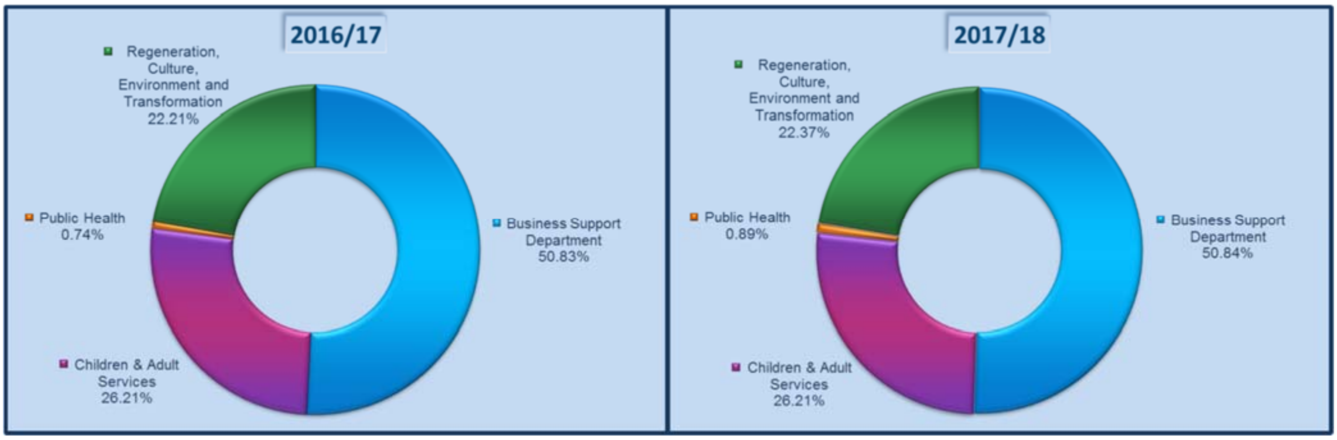
Full details, including notes on individual variances within directorates can be found within the Outturn Report that was considered at Cabinet on 12 June 2018.

The charts below detail the information in graphical form:

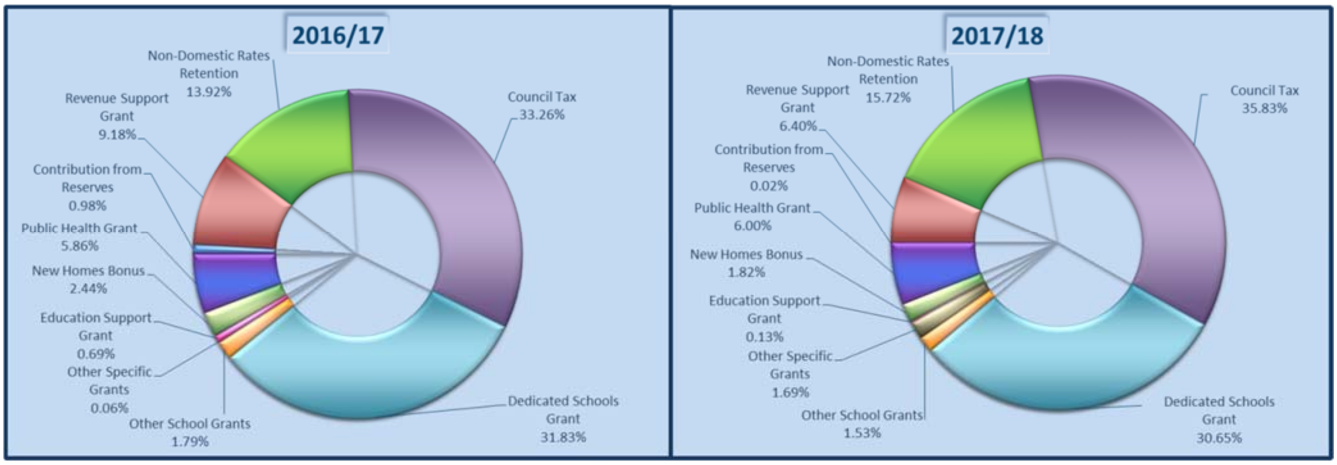
Gross expenditure



Gross income



Funding of the budget:



Housing Revenue Account

The Housing Revenue Account (HRA) reflects the income and expenditure related to the provision of housing accommodation by the Council.

	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Housing Revenue Account	13,188	(14,481)	(1,293)	(220)	(1,073)
Total Funding and Expenditure Variance	**13,188**	**(14,481)**	**(1,293)**	**(220)**	**(1,073)**

Capital Expenditure

Capital Expenditure relates to expenditure to acquire, construct, enhance or replace tangible non-current assets such as land, buildings or major pieces of equipment that will be used to provide services over a number of years in the form of a capital programme to achieve the council's strategic objectives and priorities.

In 2017/18 the Council spent £36.876m on General Fund and Housing Revenue Account capital schemes. Of this, £22.064m on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included the provision of new classrooms, improvements to school infrastructure, highways improvements and regeneration schemes. The remainder of general fund capital expenditure is split between capital assets under construction of £2.961m and £11.851m relating to "Revenue Expenditure Funded from Capital under Statute" (formerly 'deferred charges' - see Note 1 Accounting Policies page 59).

The above included Housing Revenue Account with expenditure of £4.895m which was used on an ongoing programme of improvements to the Council's housing stock.

The final capital outturn position for the year is shown in the table below, together with how this expenditure was financed:

Capital Budget 2017/18	**Approved Programme 2017/18+ £'000**	**Forecast Spend 2017/18 £'000**	**Outturn 2017/18 £'000**	**Variation to Forecast 2017/18 £'000**	**Slippage to 2018/19+ £'000**
Directorate/Service					
Digital Transformation	5,187	2,980	2,195	(785)	2,992
Business Support	787	339	431	92	356
Children and Adult Services	23,458	12,612	12,778	166	10,680
Regeneration, Culture, Environment and Transformation	56,431	17,471	16,518	(953)	39,913
Public Health	0	0	0	0	0
Member Priorities	253	205	59	(146)	194
Housing Revenue Account	6,080	5,699	4,895	(804)	1,185
Total	**92,196**	**39,306**	**36,876**	**(2,430)**	**55,320**

Funding source	**£'000**
Borrowing (supported capital expenditure and unsupported)	4,469
Government Grants and Other Contributions	21,835
Major Repairs and Other Contributions	3,512
Capital Receipts	2,382
Developer Contributions	2,645
Revenue and Reserves	2,033
Total	**36,876**

The capital programme for 2018/19 and beyond reflects the major investment priorities of the Council which include a significant schools programme to deliver additional primary school and Special Educational Needs (SEN) places, Information and Communications Technology (ICT) investment to deliver the digital transformation agenda and a significant regeneration programme in which transport infrastructure features.

Our Medium Term Financial Strategy articulates the Council's strategy for delivering a balanced budget, year on year, against a backdrop of reductions in support from Central Government. From 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

Our Medium Term Financial Strategy 2018-2023 will be presented to the Cabinet on 25 September 2018 and will include a Capital Strategy for Medway developed in line with the Prudential Code and sets out to provide:

- a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how associated risk is managed and the implications for future financial sustainability, and;
- an overview of the governance processes for approval and monitoring of capital expenditure.

Treasury Management Performance

Total investments managed in-house as at 31 March 2017 stood at £50.8million (2016/17, £37.5m). During 2017/18 the council operated a prudent investment strategy with investment priorities being security first, liquidity second and then return. Funds are invested in loans to other UK local authorities, Property Funds and bank deposits.

The Council also had £171.4m long-term borrowing as at 31 March 2018 (31 March 2017, £171.3m), primarily in the form of PWLB and market loans. In addition short term borrowing stood at £68.9m at 31 March 2018 (£36.2m at 31 March 2017). The increase in short term borrowing of £32.7m was due to the need to replace cash from grants and contributions received in previous years which has now been used to fund capital expenditure.

The council achieved an average rate of return of 1.106% on its internally managed cash flow investments (including cash equivalents) for the year.

The Level of Working Balances and Reserves

The council's working balances stood at £9.910m as at 31 March 2018 (£8.618m at 31 March 2017).

The council also holds earmarked reserves, kept for specific types of expenditure in the future. The total amount of earmarked reserves held as at 31 March 2018 is £14.170m (£16.939m at 31st March 2017).

Commentary on the financial statements

Annual Governance Statement

The Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This Statement explains how the Authority has complied with the 'CIPFA/SOLACE Delivering Good Governance' Framework during the year and up to the date of the approval for publication of the Statement of Accounts.

Statement of Accounts

The Statement of Accounts includes the financial statements of the Authority, the Statement of responsibilities to prepare the Statement of Accounts and the independent auditor's opinion on the financial statements.

Statement of responsibilities

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority and for the preparation of the Statement of Accounts. The Chief Finance Officer has to certify that the accounts present a 'true and fair' view of the financial position of the Authority as at 31 March 2018 and its income and expenditure for the year.

Independent auditor's report

The independent auditor is required to publish an opinion on the financial statements as to whether they give a true and fair view of the financial position and the expenditure and income of the Authority for the year in question. The Auditor also has a responsibility to satisfy himself/herself that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources by review and examination of the Authority's corporate performance management and financial management arrangements against criteria specified.

Core Financial statements and notes

The financial statements comprise the core financial statements of the Authority (Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement), the notes to the core financial statements (the accounting policies and supplementary information), and supplementary information required by proper practices (Housing Revenue Account Income and Expenditure Statement, Movement on Housing Revenue Account Statement and Collection Fund).

The core statements are set out on pages 33 to 39 and are presented as follows:

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt) and unusable reserves i.e. those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the 'adjustments between accounting basis and funding basis under regulations' line. The total comprehensive income and expenditure line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Balance Sheet

The Balance Sheet shows the value as at the end of the accounting period of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

Notes to the principal financial statements

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 40 to 127.

The supplementary financial statements are set out on pages 128 to 139 and are presented as follows:

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and non-domestic rates.

Housing Revenue Account (HRA) Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the accounting cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Movement on the Housing Revenue Account Statement

This statement shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year end.

Other information

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader and is set out on pages 140 to 149.

St Mary's Island,
Chatham Maritime

E. Notes to the Core Financial Statements

Medway Council
Serving You

Table of Contents

Temple Manor, Strood

E1. Statement of Accounting Policies

1. Accounting Policies

General Principles

The financial statements summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Qualitative Characteristics of Financial Statements

Relevance
The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

Materiality
The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts.

Faithful Representation
The financial information in the accounts is a faithful representation of the economic performance of the Council as they have been prepared to reflect the reality or substance of the transaction, are free from deliberate or systematic bias, are free from material error and contain all the information necessary to aid understanding.

Comparability
The accounts must comply with the Code which establishes proper practice in relation to consistent financial reporting.

Verifiability
Different knowledgeable and independent observers will be able to reach the same conclusion from the information presented in the accounts.

Timeliness
The information provided in the accounts is available to decision makers in time to be capable of influencing their decisions.

Understandability
These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local Government. Every effort has been made to use plain language and where technical terms are unavoidable they have been explained in the glossary contained within the accounts.

Underlying Assumptions

Accruals Basis

The financial statements, other than the cash flow, are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

Primacy of Legislation Requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards. The following are examples of legislative accounting requirements have been applied when compiling these accounts:

- Capital receipts from the disposal of property, plant and equipment are treated in accordance with the provisions of the Local Government Act 2003.

- The Local Government Act 2003 requires the Council to set aside a minimum revenue provision.

- The Housing Revenue Account is compiled following proper practice as defined by the Local Government and Housing Act 1989 and section 21 of the 2003 Act.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. However, it is the Authority's policy not to accrue for amounts less than £500 unless it is considered significant to the service. There are particular areas where accruals are considered:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments for them are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Exceptions to this are payments of:

- Regular quarterly accounts (e.g. telephones, electricity, ICT contracts for software and hardware)
- Penalty Charge Notice income
- Employee expenses and overtime allowances.

These have been consistently applied each year and therefore do not have a material effect on the year's accounts.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

All other investments which are not held for the purpose of meeting short-term cash needs and are not readily convertible into known amounts of cash are classified as investments.

Prior Period Adjustments, Changes in Accounting Policy and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

Material errors discovered in prior year periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation or impairment losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Employee Benefits

Benefits payable during employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits
Employees of the Authority are members of three separate pension schemes.

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority (BSA).
- The Local Government Pensions Scheme, administered by Kent County Council.

These schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Adults Directorate line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health Directorate line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their fair value at current prices, using a discount rate of 2.55%

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Business Support Department

- net interest on the net defined benefit liability/asset, i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements but since 6 January 2007 has ceased to award additional service in the event of early retirement on other than ill-health grounds. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

The Authority’s financial assets (investments) are classified into:

- Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market
- Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant Directorate (for receivables specific to that Directorate) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-Sale Assets are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the Instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes on fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or deficit on revaluation of Available- for- Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flow discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant Directorate line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Heritage Assets

Heritage Assets are held purely for increasing the knowledge, understanding and appreciation of the Authority's history and local area and are recognised by using the latest insurance valuation, which shall be subject to an annual review. Formal revaluations should provide value for money for taxpayers with regards to the information provided within the financial statements versus the cost of obtaining the data. Due to the high cost and minimal change in values when compared to insurance reviews, it has been decided that formal valuations will not be undertaken.

By their nature, the useful life cannot be measured and therefore they will not be subject to annual depreciation charges. Where assets are being recognised for the first time, the initial valuation shall be recognised as a gain in the balance sheet and an increase in the Authority's revaluation reserve.

It is not foreseen that there will be many disposals of heritage assets, but should this occur, the same guidelines as set out within Property, Plant and Equipment shall apply.

The Authority's collections of heritage assets are accounted for as follows:

Buildings

The buildings included are Rochester Castle, Temple Manor, Eastgate House, Brook Pumping Station and various clocks and war memorials. They are not used to provide services and therefore are considered non-operational. With the exception of Rochester Castle, they were revalued during 2012/13. Unfortunately despite an extensive search, the Authority was unable to engage a valuer with relevant knowledge to provide a valuation for Rochester Castle, so the valuation remains that of an historic insurance valuation at the present time.

Furniture

The Authority holds many items of furniture ranging from clocks, chairs, chaise lounges, and various types of chests and writing cabinets dating from the 17th, 18th and 19th centuries. Some of these items are on display whilst others are held in storage. Some of these items have previously valued by industry experts to provide an updated insurance valuation.

Silver/Gold Collections

There are currently various different pieces held within this collection including items of civic regalia, Iron Age coins and other miscellaneous items from the 17th, 18th and 19th centuries and are held within the Balance Sheet. These items were revalued by industry experts during 2013/14 to provide an updated insurance valuation.

Art Collection

The collection consists of items including various paintings, marble busts and engravings dating from the 17th, 18th and 19th centuries. Part of this category was revalued during both 2014/15 and 2016/17 by industry experts to provide an updated insurance valuation.

Other

The Authority holds many items within this category including collections of medals, various coins and trading tokens, pianos, cameras, costumes and jewellery dating from the Bronze Age to the 20th century. Many can be found on display whilst a few are held in storage.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see policy relating to Property, Plant and Equipment in this summary of significant accounting policies.

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures that require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Authority has two joint ventures; Medway Norse Limited and Medway Norse Transport (see Note 18). The Authority's share of net assets in these entities is immaterial to the financial statements and consequently no group accounts have been prepared.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment may be accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the Directorates benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure, generally above the de-minimis level of £25,000 on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a Directorate.
Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Directorate line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Componentisation
Componentisation allows significant parts of an asset with different values and useful lives to be accounted for separately (recognition, depreciation and derecognition), therefore providing the most accurate way of accounting for the overall asset.

All assets (including Council Dwellings and Non-Dwellings relating to the Housing Revenue Account), other than investment properties, have a land and building/depreciable split where appropriate. After assessing the materiality of the various items of Property, Plant and Equipment, it was decided that assets with a Gross Book Value in excess of £2.5m and the following asset types would be considered for further componentisation, where appropriate, upon the date of their next scheduled revaluation:

- Schools
- Leisure centres with swimming pools
- Crematorium

Housing Revenue Account Buildings are further componentised to include major components with different lives to the main structure e.g. kitchens, bathrooms, heating systems etc. to allow the most accurate depreciation charges.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Directorate line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is charged in the year of disposal and not in the year of acquisition.

Depreciation is calculated on the following basis:
- Council dwellings and other buildings – straight-line allocation over the outstanding life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the projected life of the asset
- infrastructure – straight-line allocation over the outstanding life of the asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals
When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate Directorate line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Non Domestic Rate (NDR) Appeals Provision
Local Authorities retain an element of all NDR collected and in Medway's case we retain 49% of collected NDR. With this responsibility we also suffer the loss of income from successful appeals against the rateable value of non-domestic property which include appeals submitted to the Valuation Office (VOA) prior to the introduction of this new regime. In order to mitigate against future losses of income from these appeals the Authority has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is adjusted to take account of the probability of success.

A new rating list came into effect on 1 April 2017 and appeals filed after that date are based on the new list and cannot be backdated. The provision in respect of new appeals will be based on the likelihood of success and the resultant increase or decrease in the provision charged or credited to the Income and Expenditure Account.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed as a note to the accounts.

Reserves

Usable Earmarked Reserves
The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Unusable Reserves
Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Authority. These reserves are explained in the notes to the principal financial statements.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of recognisable non-current assets has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

Schools maintained by the Council are recognised on the Balance Sheet as the balance of control lies with the Council.

The Council has the following types of maintained schools:
- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

However, Voluntary aided and voluntary controlled schools are not recognised on the Council's Balance Sheet as the balance of control for these schools lies with the respective dioceses.

Recognition of Schools' Non-current Assets
Maintained schools' non-current assets should be recognised in the local authority financial statements in accordance with the requirements of chapter four of the Code (Non-current Assets). The area likely to be of most concern is the land and buildings from which schools operate.

If a school obtains academy status, then all responsibilities transfer to the Academy. The only exception to this will be where the school was previously a maintained school where the Authority had a form of control over the future ability to provide a school, whereby the responsibility for the non-current assets will be transferred to the Academy by way of a long-term lease, and therefore, the present value of that lease relating to the freehold will be all that remains within the Authority's Balance Sheet.

VAT

VAT payable is included in the accounts as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorized within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 has introduced several changes in accounting policies which will be required from 1 April 2018.

- **IFRS 9 Financial Instruments** which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets, currently classified as loans and receivables, and available for sale, to amortised cost and fair value through profit and loss respectively based on the contractual cash flows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. It is anticipated that there could be an impact of £691k to the General Fund, this being the balance on the Available for Sale reserve as at 31 March 2018. In line with the new standard, any gains or losses on the investment in property funds will be recognised in the General Fund from the next financial year.

- **IFRS 15 Revenue from Contracts with Customers** (including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers) presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. (no requirement to restate prior year).

- **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative** will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 39) in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.

The following changes in accounting policies will be required from 1 April 2019.

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

The impact of the above amendments will be reflected in the 2018/19 and 2019/20 financial statements respectively but are not expected to be material in nature.

3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or school Governing Body then it is not included on the Authority's Balance Sheet. The Authority has completed a school by school assessment across the different types of schools it controls within Medway. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority's Balance Sheet. Academies are not considered to be maintained schools in the Authority's control. Thus the land and building assets are not owned by the Authority and not included on the Authority's Balance Sheet.

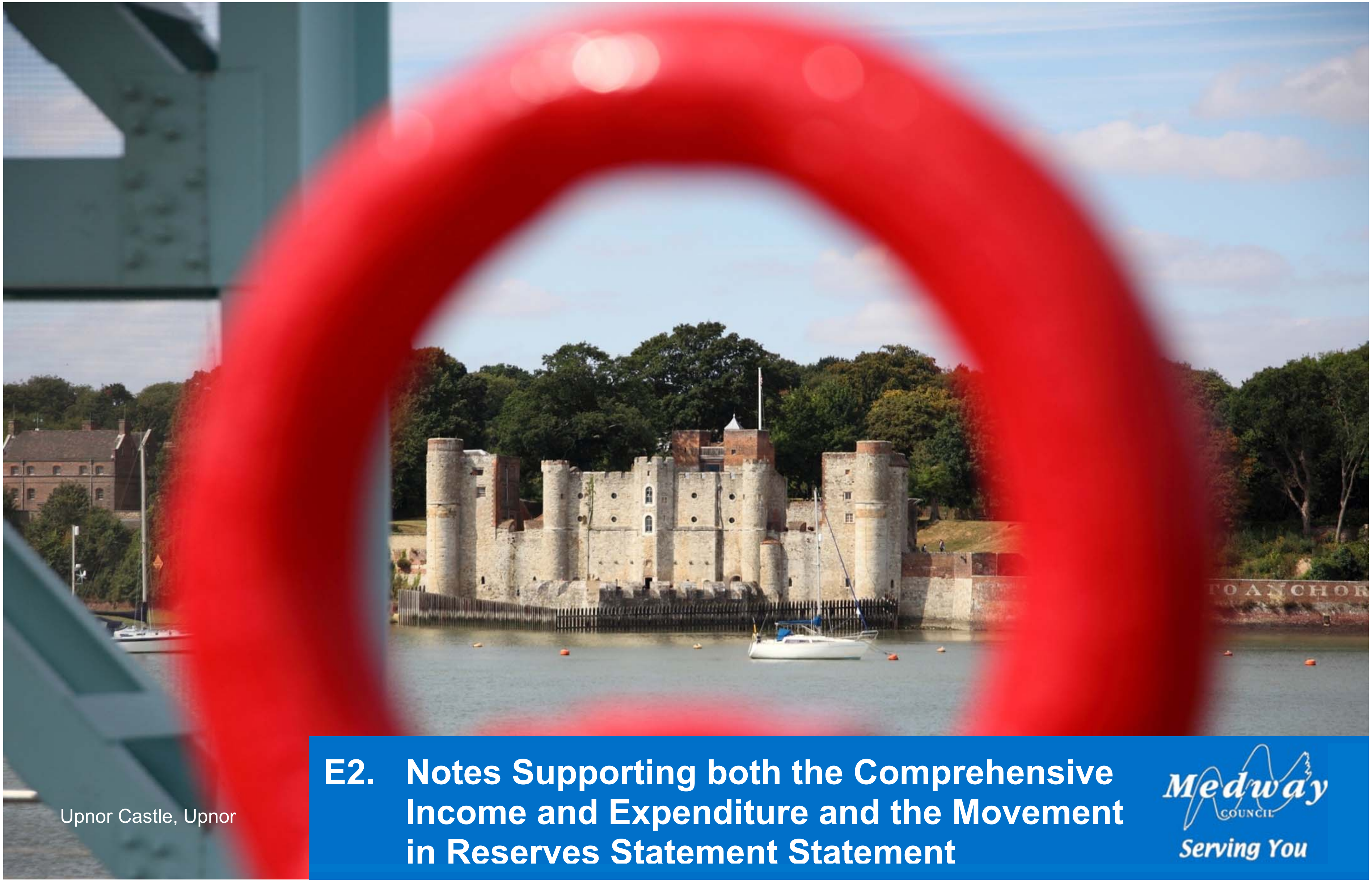
4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The financial statements contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pension liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Public sector consultants Barnett Waddingham are engaged to provide the Authority with expert advice about the assumptions to be applied.	The effect of changes in assumptions on discount rate, long term salary increases, pension increase and deferred revaluation and mortality rates would be as detailed within the sensitivity analysis table within Note 36 to the financial statements.
Valuation of operational property	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's internal valuers provided valuations as at February 2018 for all of the Council's investment portfolio and approximately 20% of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values reflect current values. The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers. The key assumptions that are most likely to affect the valuation are: Council dwellings are valued on an Existing Use (Social Housing) basis. The market value for each of the beacon properties (groups of similar properties) is determined by reference to sales data recorded on the land registry, and adjusted to reflect the characteristics of the beacon properties. The social housing discount factor is applied for these properties. The valuer has been guided by the Government's stock valuation guidance which suggests a discount factor for South East England of 33%.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £64m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

Item	Uncertainties	Effect if actual results differ from assumptions
	Specialised properties are valued on the basis of depreciated replacement cost (DRC). This basis seeks to determine the current cost of replacing an asset with its modern equivalent, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Assumptions are made about build cost and adjustments for obsolescence. Non-specialised properties are valued on the basis of Current Value in Existing Use. Value is determined by reference to market evidence but subject to the assumption that the asset remains in use for its existing purpose.	Depreciation charges for operational buildings will change in direct relation to changes in estimated current value. The net book value of non-current assets subject to potential revaluation is over £503m.



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E2. Notes Supporting both the Comprehensive Income and Expenditure and the Movement in Reserves Statement Statement

Medway Council
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5. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17						2017/18				
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Management Accounts £'000	Directorate	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Management Accounts £'000
8,055	308	7,747	1,017	6,730	Business Support Department	7,963	2,682	5,281	(1,930)	7,211
126,184	(10,187)	136,371	(98,511)	234,881	Children's and Adults	112,446	(14,539)	126,984	(91,378)	218,362
54,811	(29,992)	84,803	7,494	77,309	Regeneration, Community, Environment and Transformation	52,968	(24,849)	77,818	3,544	74,273
(2,644)	(103)	(2,541)	(17,759)	15,218	Public Health	(2,588)	(303)	(2,285)	(16,675)	14,390
(3,445)	18,202	(21,647)	(20,846)	(801)	Housing Revenue Account	(2,772)	7,611	(10,383)	(9,090)	(1,293)
182,961	**(21,773)**	**204,734**	**(128,605)**	**333,337**	**Net Cost of Services**	**168,016**	**(29,398)**	**197,414**	**(115,529)**	**312,943**
(169,193)	633	(169,826)	(175,051)	5,225	Other operating income and expenditure	(166,533)	(28,847)	(137,686)	(117,654)	(20,032)
13,769	**(21,139)**	**34,908**	**(303,656)**	**338,562**	**(Surplus) or Deficit**	**1,483**	**(58,246)**	**59,728**	**(233,183)**	**292,912**
(39,331)					Opening General Fund and HRA Balance	(25,562)				
13,769					Less Deficit on General Fund and HRA Balance in Year	1,483				
(25,562)					**Closing General Fund and HRA Balance ***	**(24,080)**				

*for a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

The figures shown under **Management Accounts** detail the amounts held within the CIES relating to management accounts net spend i.e. those incurred in providing services to the residents of Medway. This does not include accounting adjustments required as part of complying with accounting regulations and statute. The movements shown within **Amounts Not Reported to Management/Corporate Amounts** include funding of the revenue budget e.g. Council Tax, Non-Domestic Rates, Dedicated Schools Grant and the Public Health grant. Other transactions relate to the changes in value and loss on disposal of non-current assets.

6. Note to Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

	Adjustments between Funding and Accounting Basis 2017/18			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note a) £'000**	**Net change for the Pensions Adjustments (Note b) £'000**	**Other Differences (Note c) £'000**	**Total Adjustments £'000**
Business Support Department	(2,414)	5,050	46	2,682
Children's and Adults	(8,291)	(6,516)	268	(14,539)
Regeneration, Community, Environment and Transformation	(20,368)	(4,388)	(93)	(24,849)
Public Health	0	(291)	(12)	(303)
Housing Revenue Account	7,853	(232)	(10)	7,611
Net Cost of Services	**(23,219)**	**(6,378)**	**199**	**(29,398)**
Other income and expenditure from the Expenditure and Funding Analysis	(18,879)	(7,837)	(2,131)	(28,847)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(42,098)**	**(14,215)**	**(1,932)**	**(58,246)**

	Adjustments between Funding and Accounting Basis 2016/17			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note a) £'000**	**Net change for the Pensions Adjustments (Note b) £'000**	**Other Differences (Note c) £'000**	**Total Adjustments £'000**
Business Support Department	(1,351)	1,701	(42)	308
Children's and Adults	(7,511)	(3,096)	419	(10,187)
Regeneration, Community, Environment and Transformation	(28,153)	(1,794)	(45)	(29,992)
Public Health	0	(102)	(1)	(103)
Housing Revenue Account	18,430	(213)	(15)	18,202
Net Cost of Services	**(18,585)**	**(3,504)**	**316**	**(21,773)**
Other income and expenditure from the Expenditure and Funding Analysis	1,963	(8,608)	7,278	633
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(16,621)**	**(12,112)**	**7,594**	**(21,139)**

Adjustments for Capital Purposes

a) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

b) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

Other Differences

c) Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Services** this represents Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.
- For **Financing and investment income and expenditure** this recognises adjustments to the General Fund for the timing differences for premiums and discounts and adjustments to service segments eg for interest income and expenditure and changes in the fair values of investment properties..
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund. This also contains adjustments to service segments e.g. for unringfenced government grants.

7. Segmental Income

Income received on a segmental basis is analysed below:

	2016/17 Income from Services £'000	2017/18 Income from Services £'000
Business Support Department	(4,620)	(3,997)
Children's and Adults	(16,852)	(16,229)
Regeneration, Community, Environment and Transformation	(28,107)	(31,210)
Public Health	(2)	0
Housing Revenue Account	(14,555)	(14,413)
Total income analysed on a segmental basis	**(64,136)**	**(65,849)**

8. Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

	2016/17 £'000	2017/18 £'000
Expenditure/Income		
Expenditure		
Employee benefits expenses	150,333	134,341
Other services expenses	383,905	379,028
Support service recharges	0	2
Depreciation, amortisation and impairment	20,997	27,326
Interest payments	11,600	10,795
Precepts and levies	1,637	1,692
Payments to Housing Capital Receipts Pool	225	306
Gain on the disposal of assets	19,813	40,891
Pension Adjustment	267	248
Total expenditure	**588,776**	**594,630**
Income		
Fees, charges and other service income	(80,910)	(74,511)
Interest and investment income	(4,773)	(4,867)
Income from council tax and non-domestic rates	(148,419)	(154,039)
Government grants and contributions	(319,767)	(301,484)
Total income	**(553,868)**	**(534,901)**
Surplus or Deficit on the Provision of Services	**34,908**	**59,729**

Aerial View of Rochester

E3. Notes Supporting the Comprehensive Income and Expenditure Statement

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Notes to the Core Financial Statements 74

9. Other Operating Expenditure

	2016/17 £'000	2017/18 £'000
Parish Council Precepts	383	408
Levies	1,254	1,284
Payment to the Government Housing Capital receipts Pool	225	306
Gains/losses on disposal of non-current assets	19,813	40,891
Total	**21,674**	**42,889**

10. Financing and Investment Income and Expenditure

	2016/17 £'000	2017/18 £'000
Interest payable and similar charges	11,434	10,891
Net interest on the net defined benefit liability (asset)	8,608	7,837
Interest receivable and similar income	(3,423)	(3,438)
Income and expenditure in relation to investment properties and changes in their fair value	(3,192)	829
Other investment income	(972)	(1,133)
Total	**12,455**	**14,986**

11. Taxation and Non-Specific Grant income and expenditure

	2016/17 £000s	2017/18 £000s
Council tax income	(102,305)	(108,317)
Non-domestic rates income and expenditure	(46,114)	(45,723)
Non-ring-fenced government grants	(38,094)	(24,405)
Capital grants and contributions	(17,443)	(17,118)
Total	**(203,955)**	**(195,562)**

12. Pooled Budgets

Better Care Fund (BCF)

The Council operated a Better Care Fund of £22.793m with Medway Clinical Commissioning Group under a s75 arrangement throughout 2017/18. For 2017/18 the s75 arrangement included the Council's allocation in respect of the Improved Better Care Fund. The arrangements for each scheme within the Better Care Fund have been reviewed to determine the appropriate accounting treatment by the Council and Medway CCG. Control of the commissioning arrangements has been key to determining the nature of each scheme within the fund.

This substance of the arrangement, however, is not one of a pooled budget, individual members continue to contract with individual providers without reference to other members and continue to use their own resources of funding. In substance these are neither joint operations nor lead commissioner transactions and not a vehicle for joint commissioning. The conclusion has been reached as both parties have retained the financial risks associated with each of the schemes as existed before the fund was set up.

The Council and Medway CCG will continue to work towards greater integration and joint commissioning of services in future years and the accounting of the Better Care Fund will be reviewed each year.

Better Care Fund (BCF)	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Funding provided through the s75 agreement:				
Medway Council	1,800		5,817	
Medway CCG	16,673		16,976	
		18,473		22,793
Expenditure met from the s75 agreement:				
Medway Council	1,800		5,817	
Medway CCG	16,673		16,976	
		18,473		22,793
Net surplus/(deficit) arising on the pooled budget during the year		**0**		**0**

13. Members' Allowances

The Authority paid the following amounts to members of the Council during the year:

	2016/17 £000	2017/18 £000
Basic Allowance	466	472
Special Responsibility Allowance	266	269
Expenses	3	5
Total	**735**	**746**

Medway Council is comprised of 55 Members. In 2017/18, 56 Members were entitled to claim allowances. This includes 1 Councillor whose term of office ended 2017/18 and 55 current Councillors.

14. Officers' Remuneration

The remuneration paid to the Authority's senior employees during 2017/18 is as follows:

Post	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	157,843	0	0	157,843	27,450	185,293
Director of Children & Adult Services	112,250	32	0	112,282	19,268	131,550
Director of Regeneration, Community, Environment & Transformation	116,308	0	0	116,308	20,010	136,318
Director of Public Health (Left 30/04/2017)	14,040	81	0	14,121	0	14,121
Director of Public Health (Appointed 01/05/2017)	102,895	283	0	103,178	17,662	120,840
Chief People Officer (Left 10/09/2017)	35,796	0	0	35,796	5,725	41,521
Assistant Director - Transformation (Left 10/09/2017)	42,419	0	0	42,419	7,094	49,513
Assistant Director - Transformation (Appointed 11/09/2017)	47,777	0	0	47,777	7,644	55,421
Chief Finance Officer	97,166	326	0	97,492	15,551	113,043
Deputy Director - Childrens and Adults	101,025	0	0	101,025	17,645	118,670
Assistant Director - Commissioning, Business & Intelligence	87,910	0	0	87,910	14,337	102,247
Assistant Director - Adult Social Care (Appointed 18/12/17)	22,334	0	0	22,334	3,635	25,969
Assistant Director - Legal & Corporate Services	91,306	0	0	91,306	15,867	107,173
Assistant Director - Physical and Cultural Regeneration	95,547	38	0	95,585	16,643	112,228
Assistant Director - Front Line Services	77,892	150	0	78,042	13,412	91,454

During 2017/18, a Senior Management reorganisation took place which involved deleting the old Chief People Officer role, currently a senior post in the Business Support Department (with responsibilities for all aspects of the HR function, as well as cultural change and organisational development, payroll, and health and safety), and transferring the HR and organisational development aspects of the role to the new post of Assistant Director - transformation, based in RCET. Certain other functions contained in the old post were transferred to the Chief Finance Officer.

In addition to the above the Division, previously entitled Partnership Commissioning within the Children and Adult's Directorate was renamed Commissioning, Business and Intelligence.

The post entitled Assistant Director - Adult Social Care has no comparator for 2016/17 as it was covered via an external temp agency.

Comparative figures for 2016/17 are as follows:

Post	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	156,901	318	0	157,219	27,286	184,505
Director of Children & Adult Services - left 24.07.16	41,162	0	0	41,162	7,134	48,296
Director of Children & Adult Services - appointed 18.07.16	78,585	4	0	78,589	13,489	92,078
Director of Regeneration, Community, Environment & Transformation	115,614	0	0	115,614	19,891	135,505
Director of Public Health (Andrew Burnett)	167,667	701	0	168,368	0	168,368
Chief People Officer	80,062	0	0	80,062	12,802	92,864
Assistant Director Communications, Performance & Partnerships	93,411	0	0	93,411	15,866	109,277
Chief Finance Officer	91,617	26	0	91,643	14,543	106,186
Deputy Director - Children & Adult Services - left 17.07.16	28,007	0	0	28,007	4,878	32,885
Deputy Director - Children and Adults - started 01.08.16	64,374	0	0	64,374	11,222	75,596
Assistant Director - Children Services - left 31.07.16	52,153	0	0	52,153	9,265	61,418
Assistant Director - Legal & Corporate Services	89,782	0	0	89,782	15,593	105,375
Assistant Director - Physical and Cultural Regeneration - left 31.07.16	30,856	16	42,593	73,465	5,289	78,754
Assistant Director - Physical and Cultural Regeneration - appointed 13.03.16	72,026	0	0	72,026	12,511	84,537
Assistant Director - Front Line Services - left 06.07.16	24,290	0	24,044	48,334	4,222	52,556
Assistant Director - Front Line Services - appointed 28.11.16	26,371	0	0	26,371	4,540	30,911
Assistant Director - Partnership Commissioning	84,942	0	0	84,942	14,010	98,952

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

	Number of Employees			
	Schools		Non-Schools	
Remuneration Band	**2016/17**	**2017/18**	**2016/17**	**2017/18**
£50,000 to £54,999	25	12	27	32
£55,000 to £59,999	14	14	19	19
£60,000 to £64,999	14	14	18	11
£65,000 to £69,999	6	4	12	13
£70,000 to £74,999	3	4	2	5
£75,000 to £79,999	3	1	1	2
£80,000 to £84,999	2	2	0	3
£85,000 to £89,999	0	1	1	0
£90,000 to £95,999	1	0	0	0
£95,000 to £99,999	0	0	0	0
£100,000 to £104,999	0	0	1	0
£105,000 to £109,999	0	0	0	0
£110,000 to £114,999	1	0	0	0
£115,000 to £119,999	0	0	0	0
£120,000 to £124,999	1	2	0	0
£125,000 to £129,999	0	0	0	0
£130,000 to £134,999	0	0	0	1
£150,000 to £154,999	1	0	0	0
Total	**71**	**54**	**81**	**86**

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies 2017/18	Number of other departures agreed 2017/18			Total number of exit packages by cost band 2017/18			Total cost of exit packages in each band £ 2017/18		
	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	95	11	13	24	68	51	119	272,026	354,817	626,843
£20,001 - £40,000	13	1	0	1	2	12	14	54,812	328,180	382,992
£40,001 - £60,000	1	0	1	1	0	2	2	0	91,214	91,214
£60,001 - £80,000	1	0	0	0	0	1	1	0	60,814	60,814
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	1	0	0	0	0	1	1	0	120,404	120,404
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0
Total	**111**	**12**	**14**	**26**	**70**	**67**	**137**	**326,838**	**955,434**	**1,282,272**

The total cost of £1.282m detailed in the table above for exit packages agreed during 2017/18. An amount of £1.296m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

Exit package cost band (including special payments)	Number of compulsory redundancies (restated) 2016/17	Number of other departures agreed (restated) 2016/17			Total number of exit packages by cost band (restated) 2016/17			Total cost of exit packages in each band (restated) £ 2016/17		
	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	58	14	24	38	33	63	96	138,077	415,438	553,515
£20,001 - £40,000	9	3	7	10	3	16	19	66,907	410,428	477,335
£40,001 - £60,000	3	1	1	2	1	4	5	46,500	241,025	287,525
£60,001 - £80,000	0	0	1	1	0	1	1	0	72,000	72,000
£80,001 - £100,000	0	1	0	1	1	0	1	87,000	0	87,000
£100,001 - £150,000	0	0	1	1	0	1	1	0	133,000	133,000
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0
Total	**70**	**19**	**34**	**53**	**38**	**85**	**123**	**338,484**	**1,271,891**	**1,610,375**

2016/17 package data has been restated to include packages approved but not paid in the year. The total cost of £1.61m detailed in the table above relates to exit packages agreed during 2016/17. An amount of £1.358m relating to exit packages paid during 2016/17 was charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

15. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2016/17 £'000	2017/18 £'000
Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	142	142
Fees payable to BDO for the certification of grant claims and returns for the year	9	25
Fees payable in respect of other services provided by BDO during the year	7	7
Total	**159**	**174**

16. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

During 2017/18 the Council incurred an underspend of £0.311m on DSG funded services. After taking account of the surplus of £0.132m brought forward from 2016/17, £0.452m was carried forward to 2018/19.

Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2017/18 before Academy recoupment			220,180
Less: Academy figure recouped for 2017/18			(133,287)
Total DSG after Academy recoupment for 2017/18			86,893
Plus: Brought forward from 2016/17			132
Less: Carry forward to 2018/19 agreed in advance			(141)
Agreed initial budgeted distribution in 2017/18	4,897	85,357	86,884
In year adjustments			3,370
Final budget distribution in 2017/18	4,897	85,357	90,254
Less: Actual central expenditure	(4,178)		(4,178)
Less: Actual Individual Schools Budget deployed to schools		(85,765)	(85,765)
Carried forward to 2018/19	**719**	**(408)**	**311**
Less: Agreed transfer to capital earmarked reserves.			0
Add: Carry forward to 2018/19 agreed in advance			141
Total carried forward to 2018/19			**452**

17. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

	2016/17 £'000	2017/18 £'000
Credited to Taxation and Non Specific Grant Income		
Ministry of Housing, Communities & Local Government		
- Formula Grant / Revenue Support Grant	28,374	18,848
- Inshore Fisheries Conservation Authorities Grant	32	33
- New Homes Bonus	7,632	5,146
Department for Education		
- Education Support Grant	1,918	378
Department for Environment, Food and Rural Affairs		
- Lead Local Flood Authorities Grant	1	0
Department of Health & Social Care		
- Healthwatch Grant	136	0
Recognition of Capital Grants and Contributions	17,443	17,118
Total	**55,537**	**41,523**
Credited to Services		
Cabinet Office		
- Cabinet	1,024	915
Department for Digital, Culture, Media & Sport		
- DCMS Other	188	89
Department for Education		
- Dedicated Schools Grant	98,397	90,263
- Pupil Premium Grant	4,938	3,789
- Education Funding Agency	16	168
- Sixth Form Grant	604	702
- Student Loan Company	57	78
- DFE Other	6,605	5,393
Department of Health & Social Care		
- Public Health Grant	18,118	17,671
- DoH Other	53	260
Ministry of Housing, Communities & Local Government		
- Tax Collection & Benefit Administration	284	273
- Housing Benefit Administration	1,059	966
- Benefit Subsidy	98,453	96,109
- DCLG Other	2,190	7,825
Department for Environment, Food and Rural Affairs		
- DEFRA Other	2	0
Department for Transport		
- DoT Other	222	218
Department for Work & Pensions		
- DWP Other	224	171
Home Office		
- HO Other	107	15
Ministry of Justice		
- Contributions from the Youth Justice Board	407	440
- MoJ Other	109	111
Department for Business, Energy & Industrial Strategy		
- Skills Funding Agency	1,691	1,746
Other Miscellaneous Grants	923	917
Contributions from NHS Partners	19,192	19,104
Contributions from Other Local Authorities	1,563	2,393
Miscellaneous Contributions	817	498
Recognition of Capital Grants and Contributions	6,987	9,847
Total	**264,230**	**259,961**

The Authority has received a number of grants, contributions or donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year-end are as follows:

Long-Term Liabilities	31 March 2017 £'000	31 March 2018 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Applicable Section Agreements	4,545	5,711
Total	**4,545**	**5,711**

18. Interests in Companies and Other Entities

Local Authorities must consider all their interests in entities and prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Before group accounts can be produced the following actions need to be carried out:

- Determine whether the Authority has any form of interest in an entity
- Assess the nature of the relationship between the Authority and the entity
- Determine the grounds of materiality whether group accounts should be prepared

Having considered the accounting requirements and the Authority's involvement with all companies and organisations, Group Accounts have not been prepared.

Medway Norse Limited

Medway Norse Limited provides a package of services including Corporate Cleaning, Building Maintenance, Security Services, Window Cleaning, Printing Services and Catering.

The Board of Medway Norse Ltd. consists of five directors. Two directors are appointed by Medway Council. Under a Service agreement Medway Council receives a discount on the cost of services supplied to the Authority equivalent to 50% of the operating profit of the Company.

Under IFRS 11 the relationship between Medway Council and Medway Norse Ltd is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse net of rebate in the Income and Expenditure Account and have included the investment at cost in the Balance Sheet.

Medway Norse Transport

Medway Norse Transport provides transport services to the Council. The Authority's relationship with Medway Norse Transport is identical to that with Medway Norse Ltd.

The Authority owns 20% of the share capital of Medway Transport. Under a Service Agreement Medway Council receives a discount on the cost of services supplied to the Authority equal to 50% of the operating profit of the Company.

Under IFRS 11 the relationship between Medway Council and Medway Norse Transport is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse Transport net of rebate in the Income and Expenditure Account and have included the investment at cost in the Balance Sheet.

Medway Commercial Group (MCG)

Medway Commercial Group Limited is a company wholly owned by Medway Council. Group accounts have not been prepared because MCG is not material to the accounts of Medway Council.

MCG is responsible for the delivery of CCTV, Telecare, out-of-hours, lone worker solutions, other personal alarm services and via Ocelot People Services, trading via MCG, a new staffing agency.

Medway Development Company (MDC)

Medway Development Company Limited is a company wholly owned by Medway Council. Group accounts have not been prepared because MDC is not material to the accounts of Medway Council due to the fact that it only recently began trading.

MDC has been set up to maximise the opportunities to invest in or develop property within and outside Medway and in the first instance to enable the development of a number of Council-owned sites. This will enable the generation of new and alternative revenue income streams for the Council and to deliver housing units principally in Medway.

Chatham Waterfront
Bus Station

E4. Notes Supporting the Movement in Reserves Statement

Medway Council
Serving You

19. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments made to the comprehensive income and expenditure recognised by the Authority in accordance with proper accounting practice to the resources that are specified by statute as being available to the Authority to meet future revenue and capital expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an Authority are required to paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment or the deficit of resources that the Council is required to recover at the end of the financial year. However, the balance is not available to be applied to funding HRA services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council’s landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Adjustments for 2017/18	Usable Reserves				
	General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS TO THE REVENUE RESEOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to (or from) the Pensions Reserve)	13,983	232			
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(178)	12			
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	1,109	0			
Holiday pay (transferred to the Accumulated Absences Account)	(209)	(1)			
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	57,944	(1,932)	0	0	4,987
Total Adjustments To Revenue Resources	**72,649**	**(1,690)**	**0**	**0**	**4,987**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,322)	(1,289)	2,610		
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	306		(306)		
Posting of HRA resources from revenue to the Major Repairs Reserve		(3,520)		3,520	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,855)				
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(921)	(1,112)			
Total Adjustments between Revenue and Capital Resources	**(6,792)**	**(5,921)**	**2,305**	**3,520**	**0**
ADJUSTMENTS TO CAPITAL RESOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure			(2,382)		
Use of the Major Repairs Reserve to finance capital expenditure				(3,512)	
Application of capital grants to finance capital expenditure					(2,501)
Total Adjustments To Capital Resources	**0**	**0**	**(2,382)**	**(3,512)**	**(2,501)**
Total Adjustments 2017/18	**65,856**	**(7,611)**	**(77)**	**8**	**2,486**

2016/17 Comparative Figures	Usable Reserves General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS TO THE REVENUE RESEOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to (or from) the Pensions Reserve)	11,898	213	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(221)	12	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(4,232)	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Account)	(331)	3	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	43,193	(12,840)	0	0	1,007
Total Adjustments To Revenue Resources	**50,306**	**(12,612)**	**0**	**0**	**1,007**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,370)	(1,683)	4,052	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	225	0	(225)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	(3,052)	0	3,052	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,558)	0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(3,583)	(1,536)	0	0	0
Total Adjustments between Revenue and Capital Resources	**(10,286)**	**(6,270)**	**3,827**	**3,052**	**0**
ADJUSTMENTS TO CAPITAL RESEOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(3,944)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(3,052)	0
Application of capital grants to finance capital expenditure	0	0	0	0	(4,583)
Total Adjustments To Capital Resources	**0**	**0**	**(3,944)**	**(3,052)**	**(4,583)**
Total Adjustments 2016/17	**40,020**	**(18,882)**	**(117)**	**(0)**	**(3,576)**

20. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2017/18.

	Balance 1 April 2016 £'000	Transfers in 2016/17 £'000	Transfers out 2016/17 £'000	Balance 31 March 2017 £'000	Transfers in 2017/18 £'000	Transfers out 2017/18 £'000	Balance 31 March 2018 £'000
General Fund							
Balances held by schools under a scheme of delegation	(5,402)	(1,195)	3,388	**(3,209)**	(402)	2,430	**(1,181)**
School Rev Contributions To Capital	(696)	(302)	774	**(224)**	(426)	285	**(365)**
Revenue Contributions To Capital C&A	(2,196)	(320)	2,488	**(28)**	(350)	374	**(4)**
Revenue Contributions To Capital RCC	(127)	0	121	**(6)**	(4)	4	**(6)**
Development Plan Reserve	(333)	(80)	20	**(393)**	0	29	**(364)**
Provision For Local Election	(214)	0	43	**(171)**	(90)	19	**(241)**
Bereavement Services Reserves	(190)	0	165	**(25)**	**0**	**0**	**(25)**
Community Hubs Reserve	(864)	0	426	**(438)**	0	364	**(74)**
Reserve Fund Computer Development	(106)	(167)	0	**(273)**	0	273	**(0)**
DSG Reserve	(300)	(1,136)	1,304	**(132)**	0	(320)	**(452)**
Economic Development Loans Fund	(149)	0	4	**(145)**	0	4	**(141)**
Directorate Carry Forwards	(5,157)	(704)	3,206	**(2,655)**	(1,106)	846	**(2,915)**
Homelessness Reduction	0	0	0	**0**	(168)	0	**(168)**
Collection Fund Holding Account	(3,771)	(1,753)	3,782	**(1,741)**	(2,290)	1,741	**(2,290)**
Invest To Save	(148)	0	0	**(148)**	0	148	**(0)**
Severance Payments Reserve	(1,137)	0	1,138	**1**	(1,000)	999	**0**
South Medway Development Res	(3,842)	0	599	**(3,243)**	(1,692)	1,000	**(3,935)**
Transformation Reserve	(52)	0	0	**(52)**	0	52	**(0)**
Salix Repayments	(103)	(98)	151	**(50)**	(109)	140	**(19)**
HEE Public Health Grant	(1,069)	0	432	**(637)**	0	399	**(238)**
Other Earmarked Reserves	(134)	(770)	291	**(613)**	(20)	346	**(288)**
General Reserve	(2,804)	3,015	(218)	**(8)**	(80)	0	**(88)**
Insurance Fund	(2,713)	0	(34)	**(2,747)**	0	(34)	**(2,781)**
Total Earmarked General Fund Reserves	**(31,509)**	**(3,547)**	**18,117**	**(16,939)**	**(7,737)**	**10,512**	**(14,164)**
Housing Revenue Account							
HRA Earmarked Reserves	(6)	1,536	(1,536)	**(6)**	1,112	(1,112)	**(6)**
Total Earmarked Housing Revenue Account Reserves	**(6)**	**1,536**	**(1,536)**	**(6)**	**2,224**	**(2,224)**	**(6)**
Total Earmarked Reserves	**(31,514)**	**(2,012)**	**16,581**	**(16,945)**	**(5,513)**	**8,288**	**(14,170)**

Great Lines Heritage Park, Gillingham

E5 Notes Supporting the Balance Sheet

Medway Council
Serving You

21. Property, Plant and Equipment

The Authority categorises its operational property, plant and equipment into a number of sub categories, namely council dwellings, other land and buildings, vehicles, plant, and equipment, infrastructure assets and community assets. There are two categories of non-operational property, plant and equipment, namely assets under construction and surplus assets. The following table shows the gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period and summarises the movement in current value over the year for each sub category of property, plant and equipment:

Movements on Balances 2017/18	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2017	157,322	384,527	14,766	317,750	7,762	755	13,527	896,408
Additions	4,716	5,021	641	9,869	0	0	2,961	23,208
Revaluation increases/(decreases) recognised in the Revaluation Reserve	408	14,381	0	2	0	160	0	14,951
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	3,088	543	0	0	0	1	0	3,632
Derecognition – disposals	(727)	(48,632)	(231)	0	0	(325)	0	(49,915)
Derecognition - other	0	(2,488)	0	0	(1)	0	0	(2,489)
Assets reclassified (to)/fromAssets Under Construction	0	16,426	0	0	0	0	(16,426)	0
Other Reclassifications	70	(792)	0	2	675	45	0	0
Other movements in cost or valuation	0	0	63	0	0	0	0	63
As at 31 March 2018	**164,877**	**368,986**	**15,239**	**327,623**	**8,436**	**636**	**62**	**885,858**
Accumulated Depreciation and Impairment								
As at 1 April 2017	0	(29,421)	(7,418)	(180,868)	(11)	(3)	0	(217,721)
Depreciation Charge	(3,241)	(13,805)	(2,094)	(14,278)	0	(1)	0	(33,419)
Depreciation written out to the Revaluation Reserve	0	6,307	0	0	0	0	0	6,307
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,230	477	0	0	0	3	0	3,710
Impairment losses/(reversals) recognised in the Revaluation Reserve								0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services								0
Derecognition – disposals	15	8,216	231	0	0	0	0	8,462
Derecognition - other	0	440	0	0	0	0	0	440
Other Reclassifications	(3)	3						0
As at 31 March 2018	**1**	**(27,783)**	**(9,281)**	**(195,146)**	**(11)**	**(1)**	**0**	**(232,221)**
Net Book Value								
At 31 March 2018	**164,878**	**341,203**	**5,958**	**132,477**	**8,425**	**635**	**62**	**653,637**
At 31 March 2017	**157,322**	**355,106**	**7,348**	**136,882**	**7,751**	**752**	**13,527**	**678,687**

Movements on Balances 2016/17	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2016	133,688	403,103	14,343	307,593	7,746	0	10,328	876,801
Additions	6,133	6,358	769	10,157	0	0	12,511	35,928
Revaluation increases/(decreases) recognised in the Revaluation Reserve	405	3,318	0	0	0	0	0	3,723
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	14,237	(7,673)	0	0	0	0	0	6,564
Derecognition – disposals	(1,024)	(25,234)	(90)	0	(3)	0	0	(26,351)
Assets reclassified (to)/from Surplus Assets	0	(755)	0	0	0	755	0	0
Other movements in cost or valuation	3,883	5,410	(256)		19	0	(9,312)	(256)
As at 31 March 2017	**157,322**	**384,527**	**14,766**	**317,750**	**7,762**	**755**	**13,527**	**896,409**
Accumulated Depreciation and Impairment								
As at 1 April 2016	0	(25,136)	(5,755)	(165,493)	(11)	0	0	(196,395)
Depreciation Charge	(2,793)	(15,261)	(2,063)	(15,375)	0	0	0	(35,492)
Depreciation written out to the Revaluation Reserve	0	5,640	0	0	0	0	0	5,640
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,772	2,554	0	0	0	0	0	5,326
Derecognition – disposals	21	2,779	35	0	0	0	0	2,835
Assets reclassified (to)/from Surplus Assets	0	3	0	0	0	(3)	0	0
As at 31 March 2017	**0**	**(29,421)**	**(7,418)**	**(180,868)**	**(11)**	**(3)**	**0**	**(217,722)**
Net Book Value								
At 31 March 2017	**157,322**	**355,106**	**7,348**	**136,882**	**7,751**	**752**	**13,527**	**678,687**
At 31 March 2016	**133,688**	**377,967**	**8,588**	**142,100**	**7,735**	**0**	**10,328**	**680,404**

Depreciation

The following useful economic lives have been used in the computation of depreciation:
• council dwellings – 15 to 70 years
• other land and buildings – 5 to 99 years
• vehicles, plant, furniture & equipment – 5 to 30 years
• infrastructure – 10 to 35 years

Capital Commitments

As at 31 March 2018 there was one significant contractual commitments (in excess of £4 million) for £10.8m with Volkers for work to be undertaken on a regeneration project in Strood (16/17: nil).

Effects of Changes in Estimates

In 2017/18 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

Revaluations

The Authority carries out a rolling programme which ensures that all relevant Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the Professional Standards of the Royal Institution of Chartered Surveyors by RICS Registered Valuers. All property and land revaluations were undertaken by RCIS qualified valuers employed by the Authority. If the revaluation of a specific asset results in a material change in value, an exercise is undertaken to establish whether the change is specific to that asset or could affect the whole asset class. If the material change cannot be identified as specific to that asset, then a review of the whole of that class, e.g. "Car Parks", will be undertaken to ensure that the current value of that asset class held within the balance sheet at the end of the reporting period is not materially misstated.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

● All assets are assumed to have good title, with no unusual or onerous restrictions, encumbrances or outgoings.
● Significant plant and machinery included in each EUV valuation and componentised, where necessary in accordance with the Authority's accounting policies.
● That the property is connected and has a right to use mains services and that sewers, main services and roads giving access to it have been adopted;.
● That there are no deleterious or hazardous materials or existing or potential environmental factors that would affect the valuation.
● No contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out that would adversely affect the valuation.
● Unless forming a significant proportion of the overall value, plant and machinery has been included within the valuation.
● All valuations assume each property would be disposed of separately.

The following table shows the progress of the Authority's rolling programme for the revaluation of property, plant and equipment:

Rolling Programme for the Revaluation of Property, Plant & Equipment	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carried at historic cost	0	11,521	15,239	327,350	7,696	0	62	361,868
Valued at current value (fair value for surplus assets) during the year ending:								
31 March 2018	164,877	110,866	0	3	0	365	0	276,111
31 March 2017	0	75,000	0	0	0	47	0	75,047
31 March 2016	0	89,842	0	3	430	32	0	90,307
31 March 2015	0	56,521	0	266	310	192	0	57,289
31 March 2014	0	24,384	0	0	0	0	0	24,384
31 March 2013	0	585	0	0	0	0	0	585
31 March 2012	0	148	0	0	0	0	0	148
31 March 2011	0	119	0	0	0	0	0	119
Total	**164,877**	**368,986**	**15,239**	**327,622**	**8,436**	**636**	**62**	**885,858**

Removal of Schools Transferring to Academies

Schools with a value of £39.02m (2016/17 £21.28m) have achieved academy status between 1 April 2017 and 31 March 2018 and therefore have been removed from the balance sheet for the 2017/18 financial statements. There are no existing schools which are likely to achieve academy status between 1 April 2018 and 31 March 2019 (2016/17 £29.94m)

22. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Buildings £'000	Furniture £'000	Silver / Gold Collections £'000	Art Collection £'000	Other £'000	Total Assets £'000
Cost or Valuation						
1 April 2016	10,664	269	1,318	1,066	2,532	15,850
Additions	1,689	0	0	0	0	1,689
Revaluations	(1,362)	0	0	493	0	(869)
31 March 2017	**10,991**	**269**	**1,318**	**1,559**	**2,532**	**16,670**
Cost or Valuation						
1 April 2017	10,991	269	1,318	1,559	2,532	16,670
Additions	284					284
Revaluations	45	(31)	13		2	29
31 March 2018	**11,320**	**238**	**1,331**	**1,559**	**2,534**	**16,983**

Heritage Buildings

Those buildings which have been classified to Heritage are:
- Rochester Castle
- Temple Manor
- Eastgate House
- Brook Pumping Station

- Various clocks and war memorials

Rochester Castle and Temple Manor are both in the freehold ownership of Medway Council and in the care and guardianship of English Heritage. Medway Council manage the day to day care of these properties.

Eastgate House has ceased to be a museum but is a historical building being used to promote the public's enjoyment, and advance their knowledge, of the property.

Brook Pumping Station does house a museum which is run by a team of volunteers. The buildings and contents are used to promote the public's enjoyment, and advance their knowledge of the property.

Furniture, Silver/Gold Collections, Art Collection and Other Historical Interest Items

Valuations of tangible heritage assets may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. There has been an annual programme of selective valuations in prior years which have resulted in minor changes to the values held in the balance sheet. However, in line with the Authority's accounting policies for heritage assets, there needs to be assurance that the costs of providing valuations give value for money for taxpayers with regards to the information provided within the financial statements verses the cost of obtaining the data. Due to the disproportionate costs of providing valuations from industry experts against the changes in valuation held in the balance sheet, it has been decided that there will be no valuations carried out during 2017/18. A decision as to whether revaluations will be carried out in future years will be taken in due course.

Silver and Gold Collections include a collection of Anglo Saxon silver coins and a collection of Iron Age Gold Coins.

Art Collections include a collection of Roman-British pottery and a water-colour by Charles Spencelayh ‘Polly, not forgotten’.

Other historical interest items include:

- Civic Regalia
- The Horton Collection of Victoriana
- Collection Romano – British Pottery
- Collection of personal relics of Charles Dickens
- Rochester Riverside Eye Interactive
- Models and showcases held at various sites
- Pounder Cannons at Gun Wharf

23. Heritage Assets: Further Information on the buildings and collections

Policy on acquiring Heritage Assets for its Museum Service

Medway Council's policy is to continue to acquire objects for permanent collections in order to provide a full range of services and fulfil its responsibilities to both the residents of the area administered by Medway Council and the wider audience of visitors and researchers. The Authority has as part of its services an accredited museum which acts as a long-term guardian of collections that are in the public domain.

The Authority recognises its responsibility, in acquiring additions to the collections, to ensure the care of collections, documentation arrangements and use of collections will meet the requirements of the Accreditation Standard. It will take into account limitations on collecting imposed by such factors as inadequate staffing, storage facilities and care of collections arrangements and abides by a number of ethical codes.

It is estimated that approximately 35% of the total collections are on permanent display. This is a much higher percentage than for most museums. The ‘reserve’ collection comprises a number of important themed collections that are already, and will in future, be actively used to underpin the temporary exhibitions programme and educational work, as well as collections that are primarily of research interest to the public and the academic community. Some of these specialised academic collections are by their very nature not appropriate for public display but help to enhance the museum's reputation as a valuable resource for individuals and academic institutions conducting high-level research in the disciplines of geology, archaeology and natural history. Reserve archaeological collections are particularly well used by the academic community.

Preservation of Heritage Assets

Medway Council is committed to securing higher grade storage facilities for its heritage assets. The upgraded storage facilities were made available for use during the latter part of 2013 which means that the Authority is in a position to house medium-size archaeological excavation archives in environmental conditions that meet the national standard. However, Medway Council recognises that the long-term storage of future archaeological site archives is a County-wide problem on a massive scale that may require a County-wide solution (including the possible creation of a centralised staffed storage facility to house archaeological site archives from the historic county of Kent).

Management of Heritage Assets

Medway Council holds/intends to acquire archives, including photographs and printed ephemera, and will be guided by the Code of Practice on Archives for Museums and Galleries in the United Kingdom (3rd ed., 2002) in terms of managing such items.

Disposals of Heritage Assets

Medway Council will ensure that the disposal process is carried out openly and with transparency.

By definition, heritage assets have a long-term purpose and the Authority holds collections in trust for society in relation to its stated objectives. Medway Council therefore accepts the principle that sound curatorial reasons for disposal must be established before consideration is given to the disposal of any items in the museum’s collection.

No museum objects are to be disposed of for any of the following:
● Primarily for financial reasons, except in exceptional circumstances
● On an ad-hoc basis
● Without considering expert advice
● If doing so would adversely affect the reputation of museums
● If doing so would not be in the long-term interest
● If doing so would remove the item from the public domain, unless in exceptional circumstances.

The Guildhall museum service is a fully accredited service and abides by strict regulations of the policies held with the museums association body

The Authority will confirm that it is legally free to dispose of an item and agreements on disposal made with donors will be taken into account.

When disposal of a heritage asset is being considered, the Authority will establish if it was acquired with the aid of an external funding organisation. In such cases, any conditions attached to the original grant will be followed. This may include repayment of the original grant and a proportion of the proceeds if the item is disposed of by sale."

24. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

Investment properties	2016/17 £'000	2017/18 £'000
Rental income from investment property	368	373
Direct operating expenses arising from investment property	0	0
Net gain/(loss)	**368**	**373**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment property over the year:

Investment Properties	31 March 2017 £'000	31 March 2018 £'000
Balance at start of year	6,819	9,644
Additions		
● Purchases	0	0
● Construction	0	0
● Subsequent expenditure	0	0
Disposals	0	0
Net gains/(loss) from fair value adjustments	2,825	(1,201)
Transfers (to)/from Property, Plant and Equipment	0	
Balance at end of year	**9,644**	**8,443**

Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (See "Fair Value Measurement" in the Statement of Accounting Policies for an explanation of the fair value levels).

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property

The fair value of investment property has been measured using a market approach, which takes into account prices for similar assets , existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants and data and market knowledge gained in managing the Council's Investment Asset portfolio has also been used. As a result properties have been categorised as level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

Highest and Best Use

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

Valuation Process for Investment Properties

The fair value of the Authority's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Authority's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

25. Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

Categories of Financial Instruments	Long-term		Current	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Cash and Cash Equivalents				
Cash and Cash Equivalents	0	0	5,034	12,235
Total Cash and Cash Equivalents	**0**	**0**	**5,034**	**12,235**
Investments				
Loans and Receivables - Investments	15,221	10,120	4,513	5,100
Available for sale financial assets	2,779	22,308	0	0
Total Investments	**18,000**	**32,428**	**4,513**	**5,100**
Debtors				
Loans and Receivables	153	538	20,313	28,840
Total Debtors	**153**	**538**	**20,313**	**28,840**
Borrowings				
Financial liabilities at amortised cost	(171,398)	(171,288)	(36,286)	(68,941)
Total Borrowings	**(171,398)**	**(171,288)**	**(36,286)**	**(68,941)**
Creditors				
Financial liabilities at amortised cost	(35,984)	(34,341)	(25,414)	(29,089)
Total Creditors	**(35,984)**	**(34,341)**	**(25,414)**	**(29,089)**

Income, Expenses, Gains and Losses

	2016/17				2017/18			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(11,434)	0	0	(11,434)	(10,851)	0	0	(10,851)
Total expense in Surplus or Deficit on the Provision of Services	**(11,434)**	**0**	**0**	**(11,434)**	**(10,851)**	**0**	**0**	**(10,851)**
Interest income	0	3,133	0	3,133	0	2,490	0	2,490
Investment Income	0	290	0	290	0	262	645	907
Total income in Surplus or Deficit on the Provision of Services	**0**	**3,423**	**0**	**3,423**	**0**	**2,752**	**645**	**3,397**
Net gain/(loss) for the year	**(11,434)**	**3,423**	**0**	**(8,011)**	**(10,851)**	**2,752**	**645**	**(7,453)**

Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Borrowing	207,684	285,040	240,229	352,607
Creditors	61,378	61,378	63,425	63,425

The fair value of financial liabilities is higher than the carrying amount for both years because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Financial Assets	31 March 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables - Investments	19,734	20,161	15,220	15,734
Cash and Cash Equivalents	5,034	5,034	12,235	12,235
Available for sale financial assets	2,779	2,779	22,308	22,308
Debtors	20,466	20,466	29,378	29,378

Available for sale financial assets are carried at fair value

Short-term debtors and creditors are carried at cost as this is a fair approximation of their fair value.

Fair Value Hierarchy and Valuation Techniques

The fair value of the property fund investments (classified as available for sale) has been measured using Level 1 inputs i.e. unadjusted quoted prices in active markets for identical shares.

The fair value of other financial assets and liabilities disclosed above are measured using Level 2 inputs i.e. inputs other than quoted prices that are observable for the financial asset or liability. The fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

Market rates for investments
• Fixed term deposits 0.72% to 1.12229%

Discount rates for borrowing
• LOBO 2.29% to 2.59%
• Market Debt 1.66532% to 1.68859%
• PWLB maturity 1.57% to 2.54%
• PWLB annuity 1.92%

Other assumptions
• no early repayment or impairment is recognised
• where an instrument will mature in the next 12 months, carrying amount approximates fair value
• the fair value of trade and other receivables is the invoiced amount net of and bad debt provision
There has been no change in valuation technique and no transfers between levels of the fair value hierarchy in the year.

26. Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved annually by Medway Council in its Treasury Management Strategy. Medway Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and Poors Credit Rating Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Counterparties continue to be monitored using the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three ratings agencies forming the core element. It also uses the following as overlays: credit watches and credit outlooks from credit rating agencies; CDS spreads to give early warning of likely changes in credit ratings; sovereign ratings to select counterparties from only the most creditworthy countries.

Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments by the in-house team is £20 million per counterparty, £25 million for counterparties with a Link duration of 12 months or above. The Authority also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The full investment strategy for 2017/18 was approved by full Council on 23/02/17 and the 2018/19 strategy was approved on 22/02/18. Both are available on the Authority's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £13.316m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The following analysis summarises the Authority's maximum exposure to credit risk on other financial assets, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2018	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks, financial institutions and other local authorities*	28,536	0.00	0
Customers	15,084	15.77	2,379
Total	**43,620**		**2,379**

* This is made up of the following:	Amount at 31 March 2018 £'000
Barclays	4
Svenska Handlesbanken	4
Lloyds	13,308
Other Local Authorities	15,220
Total	**28,536**

The Authority does not generally allow credit for customers, such that £12.616m of the £15.084m balance is past its due date for payment. The past amount can be analysed by age as follows:

	31 March 2017 £'000	31 March 2018 £'000
Less than three months	1,708	3,095
Three to six months	1,372	1,280
Six months to one year	1,438	1,801
More than one year	5,214	6,440
	9,732	**12,616**

The Authority provision for bad debts stood at £2.379m at 31 March 2018 (£2.513m at 31 March 2017). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

Collateral – During the reporting period the Authority held no collateral as security.

Liquidity risk

The Authority manages its liquidity position through the risk management procedures above as well as through a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods in its Treasury Strategy. These limits ensure that the Authority is not required to repay or refinance a significant proportion of its debt at one time. The structure of fixed rate borrowing as stated in the strategy and the maturity analysis of financial liabilities is as follows:

	Lower Limit %	Upper Limit %	Actual 31 March 2017 %	Actual 31 March 2018 %
Less than one year	0	50	0.00	0.00
Between one and two years	0	50	0.00	1.23
Between two and five years	0	50	4.31	3.08
Between five and ten years	0	50	4.62	4.62
More than ten years	0	100	91.07	91.07

Included within liabilities with maturity in over 10 years are £101.8m of LOBOs (Lender Option Borrower Option) loans. The LOBOs have maturity dates between 2033 and 2068.

In addition to the fixed rate borrowing the authority has £67.5m (31 March 2017 £35m) of loans from other authorities repayable within 12 months. These loans are classified as variable rate due to the short time before repayment.

The maturity analysis of financial liabilities is as follows:

	31 March 2017 (Restated) £'000	31 March 2018 £'000
Less than one year	46,323	77,353
Between one and two years	9,994	19,104
Between two and five years	36,024	34,101
More than five years	430,293	413,674
Total Principal and Interest	**522,634**	**544,232**

The previous year has been restated to include short term borrowing which was excluded from this note in error.

The table below shows the same portfolio but analysed on the basis of repayment at the first possible call date:

	Lower Limit %	Upper Limit %	Actual 31 March 2018 %
Less than one year	0	75	39.17
Between one and two years	0	50	3.15
Between two and five years	0	50	27.04
Between five and ten years	0	50	2.83
More than ten years	0	100	27.81

All trade and other payables are due to be paid in less than one year.

Market risk

The Authority's borrowings and investments could be affected by changes in interest rates, prices or foreign exchange rates.

Interest rate risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans.

The Authority has a mixture of standard fixed rate borrowings and LOBO (lender option borrower option) loans. The LOBO loans were taken out between 2003 and 2008 with maturity periods of between 35 and 60 years. The interest rates payable on these loans could be changed at specified dates during the life of the loan at the lender's option. The specified dates vary from loan to loan but occur at intervals of between six months and five years from the initial advance according to the individual loan contract. If a lender chose to vary the interest payable then the Authority would have the option to repay the loan without penalty. In practice the lender would only exercise their option if market rates were to increase above the current rate.

The Authority's long-term and current borrowing can be analysed as follows:

Borrowing Analysis	Fixed or Variable Rate	Borrowing as at 31 March 2018 £'000
Long-Term Borrowing:		
PWLB Loans (Principal)	Fixed	60,524
LOBO Loans (Principal)	Variable	101,800
Other Loans and Accounting Adjustments	Fixed	8,964
Total Long-Term Borrowing		**171,288**
Short-Term Borrowing:		
Other Local Authorities	Fixed	67,500
Other Short-Term Borrowing and Accrued Interest	Fixed	1,441
Total Short-Term Borrowing		**68,941**

Other loans and accounting adjustments (£10m) includes an accounting adjustment of £1.665m in respect of LOBO loans. This technical accounting adjustment represents the cash benefit obtained by paying lower interest payments over a specified initial period on some of the LOBO loans. The adjustment is shown in the balance sheet as an addition to the value borrowed but is reduced by way of a credit to the income and expenditure account each year over the full term of the relevant loans. The adjustment has been included above as being at fixed rates because the value will not be affected even if the LOBO lenders exercise their option to change the rates of interest on the underlying loans.

During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated. The analysis will also advise if new borrowing is taken out whether it is fixed or variable.

According to this assessment strategy, as at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowing	427
Increase in interest receivable on variable rate investments	272
Impact on Surplus or Deficit on the Provision of Services	**699**
Decrease in fair value of fixed rate investment assets	(165)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	53,402

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Foreign Exchange Risk

The Authority has cash denominated in Euro currency so is exposed to exchange rate risk and potential loss of value on the cash held. The balances held in Euro currency are kept to a minimum.

27. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2016/17 £'000	2017/18 £'000
Opening Capital Financing Requirement	252,388	255,440
Capital Investment		
Property Plant and Equipment	35,928	23,207
Heritage Assets	1,689	284
Intangible Assets	500	1,533
Revenue Expenditure Funded from Capital under Statute	9,613	11,851
Sources of Finance		
Capital receipts	(3,944)	(2,382)
Government grants and other contributions	(28,006)	(24,479)
Sums set aside from revenue		
Direct revenue contributions	(5,119)	(2,033)
Major Repairs Reserve	(3,052)	(3,512)
Minimum Revenue Provision	(4,558)	(4,855)
Closing Capital Financing Requirement	**255,440**	**255,054**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	3,051	(416)
Assets acquired under finance leases	0	30
Increase/(decrease) in Capital Financing Requirement	**3,051**	**(385)**

28. Leases

Authority as Lessee

Operating Leases

The Authority has made use of leases to acquire property, vehicles, and equipment. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	966	887
Later than one year and not later than five years	2,161	2,316
Later than five years	4,163	4,221
Total	**7,290**	**7,424**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to leases was:

	2016/17 £'000	2017/18 £'000
Minimum Lease Payments	1,023	966
Sublease Payments Receivable	(36)	(30)
	987	936

Authority as Lessor

Operating Leases

The Authority leases out property under operating leases for the provision of the following services:

- Community services such as sports facilities, community centres and tourism;
- Economic development to provide suitable affordable accommodation form local businesses;

The future minimum lease payments receivable are:

	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	828	867
Later than one year and not later than five years	2,238	1,262
Later than five years	9,650	9,577
Total	**12,716**	**11,706**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18; £0.370m contingent rents were receivable by the Authority (2016/17; £0.370m).

29. Debtors

The Council's debtors (net of the provision for bad and doubtful debts) are as follows:

31 March 2017				31 March 2018		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
0	9,527	9,527	Central government bodies	0	18,958	18,958
0	2,437	2,437	Other local authorities	0	3,355	3,355
0	1,825	1,825	NHS bodies	0	1,860	1,860
153	25,400	25,553	Other entities and individuals	538	31,396	31,934
153	**39,189**	**39,342**	**Total Debtors**	**538**	**55,569**	**56,107**

30. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2017 £'000	31 March 2018 £'000
Cash held by the Authority	24	26
Bank current accounts	12,652	15,993
Bank Overdraft	(9,948)	(17,100)
Short-term deposits with financial institutions	2,306	13,316
Total Cash & Cash Equivalents	**5,034**	**12,235**

31. Creditors

31 March 2017				31 March 2018		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
0	8,583	8,583	Central government bodies	61	13,831	13,892
35,445	5,666	41,111	Other Local Authorities	34,027	6,279	40,306
0	970	970	NHS bodies	0	305	305
0	0	0	Public corporations and trading funds	0	0	0
546	21,803	22,349	Bodies external to general government	257	21,866	22,123
35,991	**37,022**	**73,013**	**Total Creditors**	**34,346**	**42,281**	**76,627**

32. Provisions

	Short Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2017	0	3,724	221	3,944
Additional Provisions Made	0	5,135	0	361
Amounts Used	0	(4,774)	(92)	(92)
Unused Amounts Reversed	0	0	0	0
Transfer from Long Term	0	0	0	0
Balance as at 31 March 2018	**0**	**4,085**	**129**	**4,213**

	Long Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2017	1,589	2,203	461	4,253
Additional Provisions Made	2,482	752	142	3,376
Amounts Used	(1,690)	0	0	(1,690)
Unused Amounts Reversed	0	0	(97)	(97)
Transfer from Long Term	0	0	0	0
Balance as at 31 March 2018	**2,381**	**2,955**	**506**	**5,842**

The other short term provisions relate to the Carbon Reduction Commitment scheme.

The NDR appeals provision represents the sum set aside for unsettled claims to the Valuation Office Agency for rateable value reductions.

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2018. The majority of the unsettled claims are for public liability.

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of the Financial Statements, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Authority paid £3.726m to Teachers Pensions in respect of teachers retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £4.910m representing 16.48% of pensionable pay. There were no contributions remaining payable at year end. The reduction in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2017. The contributions due to be paid in the next financial year are estimated to be £3.3m.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in "Note 36".

The Authority is not liable to the scheme for any other entities' obligations to the plan.

34. Unusable Reserves

	31 March 2017 £'000	31 March 2018 £'000
Revaluation Reserve	128,214	129,361
Available for Sale Financial Instruments Reserve	(221)	(691)
Capital Adjustment Account	321,689	296,114
Financial Instruments Adjustment Account	909	1,076
Pensions Reserve	(290,064)	(277,698)
Collection Fund Adjustment Account	(752)	(1,861)
Accumulated Absences Account	(2,083)	(1,873)
Total Unusable Reserves	**157,692**	**144,427**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2016/17	2017/18	
	£'000	£'000	£'000
Balance as at 1 April	131,469		128,214
Upward revaluation of assets	10,944	26,446	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,450)	(5,160)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	8,493		21,287
Difference between current value depreciation and historical cost depreciation	(4,306)	(4,639)	
Accumulated gains on assets sold or scrapped	(7,442)	(15,501)	
Amount written off to the Capital Adjustment Account	(11,747)		(20,140)
Balance as at 31 March	**128,214**		**129,361**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost, or
- disposed of and the gains are realised.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

"Note 19" provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Balance as at 1 April		**320,045**		**321,689**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
● Charges for depreciation and impairment of non-current assets	(35,492)		(33,418)	
● Revaluation gains on Property, Plant and Equipment	11,890		7,342	
● Amortisation of Intangible Assets	(527)		(348)	
● Revenue Expenditure funded from Capital Under Statute	(9,613)		(11,850)	
● Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(23,865)		(43,502)	
		(57,607)		(81,776)
Adjusting amounts written out of the Revaluation Reserve	11,747		20,140	
Other adjustments	0			
Net written out amount of the cost of non-current assets consumed in the year		11,747		20,140
Capital financing applied in the year:				
● Use of Capital Receipts Reserve to finance new capital expenditure	3,944		2,382	
● Use of the Major Repairs Reserve to finance new capital expenditure	3,052		3,512	
● Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	23,423		21,978	
● Application of grants to capital financing from the Capital Grants Unapplied Account	4,583		2,501	
● Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	4,558		4,855	
● Capital expenditure charged against the General Fund and HRA balances	5,119		2,033	
		44,679		37,261
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		2,825		(1,200)
Balance as at 31 March		**321,689**		**296,114**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements.

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £'000	2017/18 £'000
Balance as at 1 April	**(239,786)**	**(290,064)**
Remeasurements of the net defined benefit liability/(asset)	(38,167)	26,581
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(25,163)	(26,292)
Employer's pensions contributions and direct payments to pensioners payable in the year	13,052	12,077
Balance as at 31 March	**(290,064)**	**(277,698)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2016/17 £'000	2017/18 £'000
Balance as at 1 April	**(4,984)**	**(752)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	4,232	(1,109)
Balance as at 31 March	**(752)**	**(1,861)**

The balance of £1,861m shown above consists of the following component parts:

	2017/18 £'000
Medway Council Tax Surplus	2,100
Medway Non-Domestic Rate Deficit	(3,961)
Balance as at 31 March	**(1,861)**

Accumulated Absences Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued salary and length of service at retirement.

The Administering Authority for the Fund is Kent County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, Kent County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023.There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- **Investment risk.** The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk**. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the future liability cash flows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- **Inflation risk.** All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- **Longevity risk.** In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Kent County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Transactions Relating to Post-Employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund [and Housing Revenue Account] via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2016/17 £'000	2017/18 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services	0	
Service cost comprising:		
● Current service costs	18,054	23,894
● Past service costs	493	416
● (gain)/loss from settlements	(2,259)	(6,103)
Financing and Investment Income and Expenditure		
Net Interest expense	8,608	7,837
Administration expenses	267	248
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	**25,163**	**26,292**
Remeasurement of the net defined benefit liability comprising:		
● Return on plan assets in excess of interest	(71,463)	(3,313)
● Actuarial gains and losses arising on changes in demographic assumptions	(10,781)	0
● Actuarial gains and losses arising on changes in financial assumptions	150,676	(23,268)
● Experience (gain) / loss on defined benefit obligation	(27,366)	0
● Other (if applicable)	(2,899)	0
Total Remeasurements Recognised in Other Comprehensive Income	**38,167**	**(26,581)**
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**63,330**	**(289)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	25,163	26,292
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	13,052	12,077

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme	
	31 March 2017 £'000	31 March 2018 £'000
Present value of the defined benefit obligation	(785,933)	(783,386)
Fair value of plan assets	502,641	512,072
Sub-total	(283,292)	(271,314)
Present value of unfunded obligation	(6,772)	(6,384)
Net liability arising from defined benefit obligation	**(290,064)**	**(277,698)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	31 March 2017 £'000	31 March 2018 £'000
Opening fair value of scheme assets	417,023	502,641
Interest income	15,365	13,932
Remeasurement gain/(loss):		
● The return on plan assets, excluding the amount included in the net interest expense	71,463	3,313
Actuarial gains and losses	2,899	0
Administration expenses	(267)	(248)
Contributions from employer including unfunded	13,052	12,077
Contributions from employees into the scheme	4,162	3,959
Benefits paid	(18,735)	(16,882)
Settlement prices received/(paid)	(2,321)	(6,720)
Closing fair value of scheme assets	**502,641**	**512,072**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme	
	2016/17 £'000	2017/18 £'000
Opening balance at 1 April	**656,809**	**792,705**
Current service cost	18,054	23,894
Interest cost	23,973	21,769
Contributions from scheme participants	4,162	3,959
Remeasurement (gains)/losses:		
● Actuarial gains and losses arising on changes in demographic assumptions	(10,781)	0
● Actuarial gains and losses arising on changes in financial assumptions	150,676	(23,268)
● Experience loss/(gain) on defined benefit obligation	(27,366)	0
● Other		
Past service cost		
Losses/(gains) on curtailment (where relevant)		
Liabilities extinguished on settlements	(4,580)	(12,823)
Estimated benefits paid net of transfers in	(18,230)	(16,399)
Past service cost, including curtailments	493	416
Unfunded pension payments	(505)	(483)
Closing balance at 31 March	**792,705**	**789,770**

Local Government Pension Scheme assets comprised:

	Period Ended 31 March 2017				Period Ended 31 March 2018			
	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Percentage of total asset %	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Percentage of total asset %
Equities	341,664		341,664	68.10%	329,116		329,116	64.27%
Fixed Interest Government Securities	3,749		3,749	0.70%	3,917		3,917	0.76%
Corporate Bonds	48,966		48,966	9.70%	48,960		48,960	9.56%
Property		62,636	62,636	12.50%		64,385	64,385	12.57%
Others:								
Cash		12,842	12,842	2.50%		16,969	16,969	3.31%
Private Equity		7,540	7,540	1.50%		7,263	7,263	1.42%
Infrastructure		5,529	5,529	1.10%		5,326	5,326	1.04%
Absolute Return Portfolio	19,715		19,715	3.90%	36,136		36,136	7.06%
Total assets	**414,094**	**88,547**	**502,641**	**100.00%**	**418,129**	**93,943**	**512,072**	**100.00%**

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2018 is likely to be different from that shown due to estimation techniques.

Basis for Estimating Assets and Liabilities

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2018, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016 using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Scheme or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2018 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share the actuary has rolled forward the assets allocated to the Employer at 31 March 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and our Employees.

Medway Council participates in a pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2016 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2019 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of combined membership of the pool.

Demographic, Statistical and Financial Assumptions - The actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 95% for males and 95% for females. These base tables are then projected using the CMI 2015 Model per the actuary report, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31 March 2017	31 March 2018
Mortality assumptions:		
Longevity at 65 for current pensioners		
● Men	23.0	23.1
● Women	25.0	25.2
Longevity at 65 for future pensioners		
● Men	25.1	25.3
● Women	27.4	27.5

Further assumptions are:

- Members will exchange half of their commutable pension for cash at retirement
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

The Financial assumptions used for the purposes of the IAS19 calculations are as follows:

	Local Government Pension Scheme	
	31 March 2017	31 March 2018
Rate of inflation CPI	2.70%	2.30%
Rate of inflation RPI	3.60%	3.30%
Rate of increase in salaries	4.20%	3.80%
Rate of increase in pensions	2.70%	2.30%
Rate for discounting scheme liabilities	2.80%	2.55%

These assumptions are set with the reference to market conditions at 31 March 2018.

The actuary's estimate of the duration of the Employer's liabilities is 20 years.

An estimate of the Employer's future cash flows is made using notional cash flows based on the estimated duration above. These estimated cash flows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present values of the cash flows discounted using the annualised Merill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cash flows described above. The single inflation rate derived is that which gives the same net present value of the cash flows, discounted using the annualised Merill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer price Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.3% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI.

Salaries are then assumed to increase at 1.5% p.a. above CPI in addition to promotional scale. However we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis in the following table shows how the present value and projected service cost would change if the values ascribes to various assumptions used in the actuary's calculations were there to be changes upwards or downwards by 0.1% based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

Sensitivity Analysis		£000's	£000's	£000's
Adjustment to discount rate		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	774,845	789,770	804,997
	Projected Service Cost	22,301	22,855	23,424
Adjustment to long term salary increase		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	790,994	789,770	788,553
	Projected Service Cost	22,855	22,855	22,855
Adjustment to pension increases and deferred revaluation		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	803,795	789,770	776,011
	Projected Service Cost	23,424	22,855	22,299
Adjustment to life expectation assumption		**+ 1 Year**	**None**	**-1 Year**
	Present Value of Total obligation	819,369	789,770	761,274
	Projected Service Cost	23,584	22,855	22,149

Impact on the Authority's Cash Flow

The Authority anticipates that it will pay £11.221m expected contributions to the scheme in 2018/19.

Further information can be found in Kent County Council's Superannuation Fund's Annual Report which is available upon request from the Investment Section, Sessions House, County Hall, Maidstone, Kent, ME14 1QX.

Chatham Maritime Marina,
St Mary's Island

E6. Notes Supporting the Cash Flow Statement

Medway Council
Serving You

36. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2016/17 £'000	2017/18 £'000
Interest received	(403)	(244)
Interest paid	7,590	8,590
Dividends received	(449)	(731)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2016/17 £'000	2017/18 £'000
Depreciation	(36,019)	(33,766)
Impairment and downward revaluations	11,890	7,343
(Increase) / decrease in creditors	3,162	(4,780)
Increase / (decrease) in debtors/Impairment for Bad Debts	886	16,765
Increase / (decrease) in inventories	(13)	20
Movement in pension liability	(12,111)	(14,215)
Contributions (to)/from Provisions	518	(1,859)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(23,867)	(43,502)
Other non-cash items charged to the net surplus or deficit on the provision of services	2,825	(1,170)
	(52,729)	**(75,164)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2016/17 £'000	2017/18 £'000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,052	2,610
Any other items for which the cash effects are investing or financing cash flows	17,442	17,416
	21,494	**20,026**

37. Cash Flow – Investing Activities

	2016/17 £'000	2017/18 £'000
Purchase of property, plant and equipment, investment property and intangible assets	38,116	25,026
Purchase of short-term and long-term investments	0	19,999
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(4,052)	(2,611)
Proceeds from short-term and long-term investments	0	(4,513)
Other receipts from investing activities	(17,442)	(17,118)
Net cash flows from investing activities	**16,622**	**20,783**

38. Cash Flow – Financing Activities

	2016/17 £'000	2017/18 £'000
Cash receipts of short- and long-term borrowing	(27,015)	(32,655)
Other receipts from financing activities	0	(30)
Cash payments for the reduction of outstanding liabilities relating to finance leases	308	0
Repayments of short- and long-term borrowing	128	110
Net cash flows from financing activities	**(26,579)**	**(32,575)**

Dickens Festival, Rochester

E7. Other Notes

39. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in "Note 8". Grant receipts outstanding at 31 March 2018 are shown in "Note 17".

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in "Note 13".

The Authority holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Authority etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Authority also holds a Register of Interest relating to members and senior officers. These registers are open to inspection by members of the public.

All members agree to the terms of the National Code of Local Government Conduct and the Authority has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

Sunlight Development Trust is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well-being. One member is Chair of the Trustees. The Authority made payments to the Trust amounting to £56k during 2017/18 (2016/17 £68k).

HANDS is a charity which provides access to volunteering opportunities within the local community. One Councillor is the Chair of Trustees of HANDS. The Council made payments of £36k to HANDS in 2017/18 and owed them £0 as at 31 March 2018.

One Councillor is the Chief Executive of Medway CAB, a charity which offers free advice to the public on a variety of issues. Payments totalling £0.323m were made by the Council to Medway CAB during 2017/18.

A family member of a Councillor runs a business to which the Council made payments of £5k in 2017/18 of which £2k was outstanding as at 31 March 2018.

Officers

The Chief Executive is a Council member of The University of Kent Governing Body. No payments were made by the University to the Council in 2017/18 (£82k in 2016/17). Payments to the University from the Council totalled £47k in 2017/18 (£45k in 2015/16). At 31 March 2018 the Council was owed £nil (31 March 2017 £2k).

The Chief Executive is also a Governor of Mid Kent College. Payments were made to Mid Kent College of £470k in 2017/18. Mid Kent College made payments to the Council of £8k in 2017/18 of which £6k was outstanding at 31 March 2018.

Other Public Bodies (subject to common control by Central Government)

The Authority operates a number of joint funding initiatives with Medway Clinical Commissioning Group as detailed in "Note 12".

The Authority receives grant income from various government departments as detailed in "Note 17".

Entities controlled or significantly influenced by the Authority

The Authority has a 20% equity share in Medway Norse Limited. The company provides corporate cleaning, building maintenance, security services, window cleaning, printing services and catering to the Authority.

The Authority also has a 20% equity share in Medway Norse Transport. The company provides transport services to the Authority.

The Companies supply services to the Authority which is included in the cost of services.

Medway Council appoints 2 directors to the Boards of Medway Norse and Medway Norse Transport. The Council made payments of £13.743m to Medway Norse/Medway Norse Transport in 2017/18 (£11.696m 2016/17) and owed them £0.847m as at 31 March 2018. The total value of transactions to the Council from these companies was £0.362m in 2017/18 (£0.320m 2016/17) and owed £61k (31 March 2017: £176k).

Medway Council currently has two subsidiary companies, those being Medway Commercial Group Limited and Medway Development Company Limited. Two of the four directors of Medway Commercial Group are either Councillors or Officers and the majority of the board of Medway Development Company Limited are Council Members.

Medway Commercial Group Limited (MCGL) oversees two companies, those being Medway Commercial Services (MCG) and Medway Public Services (MPS) and offers both the public and private sectors affordable technical solutions to their individual challenges, including CCTV, TeleCare and TeleHealth (assistive technologies). They are complemented by Engineering, Out of Hours and Lone Worker services.

The Council made payments of £267k to MCGL in 2017/18 and owed them £0 as at 31 March 2018. The total value of transactions to the Council from MCGL was £451k in 2017/18 and they owed £617k as at 31 March 2018.

The Council made payments of £3.761m to MCGL in relation to MPS in 2017/18 and owed them £45k as at 31 March 2018.

Loans given to MDCL amount to £27k.

Medway Development Company Limited has been established to maximise the opportunities to invest in or develop property within and outside Medway and in the first instance to enable the development of a number of Council-owned sites.

Loans given to MDG amount to £350k.

40. Contingent Liabilities

At 31 March 2018, the Authority had no significant contingent liabilities..

The Council has £101.8m of Lender Option Borrower Option loans (LOBOs), taken out between 2003 and 2008 and with terms of 30 to 60 years. Information on the Council's borrowings, including LOBO loans, is included in "Note 25". A number of local authorities, including this Council, have received objections from local electors as to the lawfulness of local authorities obtaining borrowings through LOBO loans. Whilst the LOBO loans held by this Council have not currently been found to be unlawful, there is on-going analysis of LOBOs generally by councils affected, their auditor and specialist lawyers. The law in relation to this matter is complex and there is uncertainty as to what the consequences could be should a local authority have obtained borrowing through a LOBO that was found to be unlawful. In the event of a LOBO loan being found to be unlawful, restitutionary remedies may result in the outstanding balances on these loans having to be repaid in full to the lender and may result in additional costs resulting from losses incurred by the lender.

41. Non-adjusting event post reporting period

There have been no events between 31 March 2018 and the issuing of this Statement of Accounts which have a significant bearing on the financial results year or the financial position presented in the Balance Sheet.

42. Prior Period Adjustment

The comparative figures for the table in Note 26 (see page 105) showing the maturity analysis of financial liabilities has been restated to reflect short term borrowing excluded from the original figures.

Exit packages (see page 80) have been restated in the prior year to ensure that the figures include those that were agreed in that financial year as opposed to those that were paid.

None of the above changes have had an impact on the core financial statements.

Eastgate House, Rochester

F. Supplementary Financial Statements

Medway Council
Serving You

Table of Contents

The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Medway, the Council Tax precepting bodies are The Police and Crime Commissioner for Kent and The Kent Fire and Rescue Service.

The scheme allows the Authority to retain a proportion of the total NDR received. The Medway share is 49% with the remainder paid to precepting bodies. For Medway precepting bodies this is Central Government 50%, Kent Fire and Rescue Service 1%.

NDR surpluses or deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

Year Ended 31 March 2017				Collection Fund Notes	Year Ended 31 March 2018		
Business Rates £'000	Council Tax £'000	Total £'000			Business Rates £'000	Council Tax £'000	Total £'000
			Amounts required by statute to be credited to the Collection Fund				
	(121,920)	(121,920)	Council Tax	1		(129,013)	(129,013)
(92,659)		(92,659)	Non-Domestic Rates	2	(98,303)		(98,303)
(92,659)	**(121,920)**	**(214,579)**	**Total Amount required by statute to be credited to the Collection Fund**		(98,303)	(129,013)	**(227,316)**
			Amounts required by statute to be debited to the Collection Fund				
			Precepts and demands from major preceptors and the Authority				
44,802	101,166	145,968	- Medway Council		41,015	106,556	147,571
	12,417	12,417	- Police and Crime Commissioner for Kent (PCCK)			12,866	12,866
914	5,876	6,790	- Kent Fire and Rescue Service (KFRS)		837	6,005	6,842
			Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities				
			Business rates:				
45,716		45,716	- payment to Central Government		41,852		41,852
284		284	- costs of collection		273		273
823		823	- transitional protection		7,694		7,694
			Impairment of debts/appeals				
0	0	0	- write-offs of uncollectable amounts	3	0	0	0
1,035	1,050	2,085	- allowance for impairment		1,636	1,507	3,143
0		0	– Increase/Decrease in Provision for appeals		12,017		12,017
(8,838)	1,000	(7,838)	Transfer of Collection Fund surplus/(deficit)		(3,095)	1,122	(1,973)
84,736	**121,509**	**206,245**	**Total Amount required by statute to be debited to the Collection Fund**		**102,229**	**128,056**	**230,285**
12,078	**(1,104)**	**10,974**	**Opening fund balance**		**4,155**	**(1,515)**	**2,640**
4,155	**(1,515)**	**2,640**	**Closing Fund Balance**		**8,081**	**(2,472)**	**5,609**
(7,923)	**(411)**	**(8,334)**	**Movement on fund balance**		**3,926**	**(957)**	**2,969**

			Allocation of Closing Deficit/(Surplus)				
2,036	(1,284)	752	Medway Council		3,960	(2,100)	1,860
	(157)	(157)	Police and Crime Commissioner for Kent			(255)	(255)
42	(74)	(32)	Kent Fire and Rescue Service		81	(117)	(36)
2,077		2,077	Central Government		4,040		4,040
4,155	**(1,515)**	**2,640**			**8,081**	**(2,472)**	**5,609**

Notes to the Collection Fund Account

1. Council Tax

Council Tax derives from charges raised according to the value of residual properties, which have been classified in 8 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and major preceptors for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of band D dwellings).

The Council Tax Base for 2017/18 was 81,869.00 (81,613.55 in 2016/17). The tax base for 2017/18 was approved by the Portfolio Holder for Finance on 27 January 2017 and was calculated as follows:

Band	Chargeable Dwellings	Ratio 9ths	Band D Equivalent Gross	Exemptions & Discounts	Band D Equivalent Net
A	11,156	6/9	7,437	1,310	6,127.10
B	38,044	7/9	29,590	3,344	26,245.71
C	33,428	8/9	29,714	2,574	27,140.27
D	17,271	1	17,271	1,382	15,889.35
E	8,798	11/9	10,753	781	9,971.62
F	3,786	13/9	5,469	225	5,243.77
G	1,369	15/9	2,282	112	2,169.92
H	66	18/9	132	57	75.30
Total	**113,918**		**102,647**	**9,784**	**92,863.04**
Council Tax Support					(9,290.73)
Sub Total					83,572.31
Allowance for Non Collection (2.4%)					(2,005.75)
Sub Total					81,566.56
Crown Contribution					302.44
Tax Base for the Calculation of Council Tax 2017/18					**81,869.00**
Tax Base for the Calculation of Council Tax 2016/17					**81,613.55**

2. Income from Business Rates

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of Medway the local share is 49%, Central Government 50% and Kent Fire and Rescue service 1%.

The business rates shares payable for 2017/18 were estimated before the start of the financial year as £41.9m to Central Government, £0.9m to KFRS and £41.0m to Medway Council. These sums have been paid in 2017/18 and charged to the collection fund in that year.

The total income from business rate payers collected in 2017/18 was £98.3m (£92.7m 2016/17).

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2018. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The increase in provision charged to the collection fund for 2017/18 was £2.3m (£0 charged for 2016/17).

For 2017/18, the total non-domestic rateable value at the year-end is £227.2m (£221.8m in 2016/17). The national multipliers for 2017/18 were 46.6p for qualifying Small Business, and the standard multiplier being 47.9p for all other businesses (48.4p and 49.7p respectively in 2016/17).

3. Council Tax/NDR Bad Debt Provision and NDR provision for valuation appeals

The Collection Fund account provides for bad debts on arrears of Council Tax on the basis of prior years' experience and current years collection rates.

2016/17 £000s			2017/18 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,759	2,336	Balance at 1 April	2,878	2,445
(931)	(786)	Write-offs during year	(407)	(344)
1,050	895	Contributions to provisions during year	1,507	1,277
119	**109**	**Net Increase/decrease in Provisions**	**1,100**	**933**
2,878	**2,445**	**Balance at 31 March**	**3,978**	**3,378**

The Collection Fund account also provides for bad debts on Non-domestic rates arrears.

2016/17 £000s			2017/18 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,813	1,378	Balance at 1 April	2,924	1,433
(924)	(452)	Write-offs during year	(623)	(305)
1,035	507	Contributions to provisions during year	1,636	802
111	**55**	**Net Increase/decrease in Provisions**	**1,013**	**497**
2,924	**1,433**	**Balance at 31 March**	**3,937**	**1,930**

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2018. This is the fifth year of the provision.

2016/17 £000s			2017/18 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
12,092	5,925	Balance at 1 April	12,092	5,925
0	0	Contributions to provisions during year	12,017	5,889
		Provisions utilised during the year	(9,742)	(4,774)
0	**0**	**Net Increase/(decrease) in Provisions**	**2,275**	**1,115**
12,092	**5,925**	**Balance at 31 March**	**14,367**	**7,040**

Housing Revenue Account

Explanatory Foreword

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

Paralleling the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement
- the Movement on the HRA Statement

As the Movement on the HRA Statement incorporates the surplus or deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the Statement of Accounts. The net movement will reconcile to the statutory outturn for the HRA, even though some of the gross transactions posted to the two statements will not have been specified in the statutory arrangements.

HRA Income and Expenditure Statement

This Statement analyses in more detail the income and expenditure on HRA services included in the whole Authority Surplus or Deficit on the Provision of Services. It also shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2016/17 £'000		HRA Notes	2017/18 £'000
	Expenditure		
2,967	Repairs & maintenance		2,762
3,478	Supervision and management		3,544
149	Rents, rates, taxes and other charges		166
(13,893)	Depreciation, impairment and revaluation movements of non-current assets	3	(2,779)
51	Revenue Expenditure Funded from Capital Under Statute	4	135
75	Debt management costs		75
30	Movement in the allowance for bad debts	6	28
(7,144)	**Total Expenditure**		**3,931**
	Income		
(13,036)	Dwelling rents		(12,934)
(175)	Non-dwelling rents		(176)
(1,298)	Charges for services and facilities		(1,267)
(41)	Contributions towards expenditure		(28)
(52)	Reimbursement of Costs		(7)
(14,601)	**Total Income**		**(14,412)**
(21,745)	**Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(10,481)**
99	HRA services share of Corporate and Democratic Core		99
(32)	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		(94)
(21,678)	**Net Expenditure/(Income) for Housing Revenue Account Services**		**(10,477)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(680)	(Gain) or loss on sale of HRA non-current assets		(577)
2,552	Interest payable and similar charges		2,063
(32)	Interest and investment income		(43)
155	Net interest on the net defined benefit liability (asset)		130
(19,683)	**Deficit/(Surplus) for the year on Housing Revenue Account Services**		**(8,904)**

Movement on the Housing Revenue Account Statement

This Statement shows the how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year end.

2016/17 £'000		2017/18 £'000
(2,817)	**Balance on the HRA at the end of the previous reporting period**	**(3,618)**
(19,683)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(8,904)
18,882	Adjustments between accounting basis and funding basis under statute	7,611
(801)	**(Increase) or decrease in year on the HRA**	**(1,293)**
(3,618)	**Balance on the HRA at the end of the current reporting period**	**(4,911)**

Notes to the Housing Revenue Account

1. Adjustments between Accounting Basis and Funding Basis under Regulations

2016/17 £'000		2017/18 £'000
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:		
(3,052)	Charges for depreciation and impairment of non-current assets	(3,520)
16,945	Revaluation movements on Property, Plant and Equipment	6,299
(51)	Revenue Expenditure Funded from Capital Under Statue	(135)
(1,003)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(712)
INSERTION OF ITEMS NOT DEBITED OR CREDITED TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT:		
1,536	Capital Expenditure charged Against HRA Balances	1,112
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:		
1,683	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,289
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:		
3,052	Transfer from HRA to the Major Repairs Reserve	3,520
ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:		
(12)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(12)
ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:		
(448)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(432)
235	Employer’s pension contributions and direct payments to pensioners payable in the year	201
ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:		
(3)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1
18,882	**TOTAL ADJUSTMENTS**	**7,611**

2. Housing Revenue Account Stock

a. Rentable Dwelling Stock

The Council managed 3,016 rentable dwellings as at 31 March 2018. The movement in stock is analysed as follows:

Stock Type	1 April 2017	Adjustments	Additions	Disposals	31 March 2018
Houses	1,275	1	0	(9)	1,267
Flats	1,253	1	0	(2)	1,252
Maisonettes	215	0	0	(1)	214
Bungalows	283	0	0	0	283
Total	**3,026**	**2**	**0**	**(12)**	**3,016**

b. Non-Rentable Dwelling Stock

The Council owned 1 non rentable dwelling (a flat) as at 31 March 2018.

Stock Type	1 April 2017	Adjustments	Additions	Disposals	31 March 2018
Flats	1	(1)	0	0	0
Total	**1**	**(1)**	**0**	**0**	**0**

c. Non-Dwelling Stock

The Council owned 874 non dwellings as at 31 March 2018. The movement in stock is analysed as follows:

Stock Type	1 April 2017	Adjustments	Additions	Disposals	31 March 2018
Garages	407	0	0	(14)	393
Garages with water	183	0	0	0	183
Carports	78	0	0	0	78
Carspaces	180	0	14	0	194
Underground carspaces	26	0	0	0	26
Commercial Property	1	0	0	(1)	0
Total	**875**	**0**	**14**	**(15)**	**874**

3. HRA Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their ‘existing use with vacant possession’ based upon beacon values and then reduced to reflect ‘existing use for social housing’. This value is included within the Balance Sheet. The vacant possession value at 1 April 2017 was £476.7m. The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

Movements on Balances 2017/18	Dwellings £’000	Other Land and Buildings £’000	Assets Under Construction £’000	Total £’000
Cost or Valuation 1 April 2017	157,320	4,004	0	161,324
Additions	4,717	44	0	4,761
Revaluation increases/(decreases) recognised in the Revaluation Reserve	408	(16)	0	392
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	3,088	(29)	0	3,059
Derecognition – disposals	(726)	0	0	(726)
Other movements in cost or valuation	70	(70)	0	0
	164,877	**3,933**	**0**	**168,810**
Depreciation as at 1 April 2017	0	(2)	0	(2)
Depreciation charge	(3,240)	(281)	0	(3,521)
Depreciation written out to the Revaluation Reserve	0	266	0	266
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,230	11	0	3,241
Derecognition – disposals	15	0	0	15
Other movements in depreciation and impairment	(3)	3	0	0
As at 31 March 2018	**2**	**(2)**	**0**	**(0)**
Net Book Value				
As at 31 March 2017	157,320	4,002	0	161,322
As at 31 March 2018	164,879	3,931	0	168,810

Movements on Balances 2016/17	Dwellings £’000	Other Land and Buildings £’000	Assets Under Construction £’000	Total £’000
Cost or Valuation 1 April 2016	133,688	3,730	2,552	139,970
Assets Under Construction brought into use	3,883	0	(3,883)	0
Additions	6,131	143	1,331	7,605
Revaluation increases/(decreases) recognised in the Revaluation Reserve	405	195	0	600
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	14,237	(64)	0	14,173
Derecognition – disposals	(1,024)	0	0	(1,024)
	157,320	**4,004**	**0**	**161,324**
Depreciation as at 1 April 2016	0	0	0	0
Depreciation charge	(2,793)	(259)	0	(3,052)
Depreciation written out to the Revaluation Reserve	0	257	0	257
Depreciation written out to the Surplus//Deficit on the Provision of Services	2,772	0	0	2,772
Derecognition – disposals	21	0	0	21
As at 31 March 2017	**0**	**(2)**	**0**	**(2)**
Net Book Value				
As at 31 March 2016	133,688	3,730	2,552	139,970
As at 31 March 2017	157,320	4,002	0	161,322

4. Analysis of HRA Capital Expenditure and Funding

	2016/17 £'000	2017/18 £'000
Capital Expenditure		
Dwellings	6,131	4,717
Other Land and Buildings	143	44
Assets under Construction	1,331	0
Revenue Expenditure Funded from Capital under Statute	51	135
Total	**7,656**	**4,896**
Funded by:		
Major Repairs Reserve	3,052	3,512
Transfer from 1-4-1 Capital Receipts Reserves	882	272
Prudential Borrowing for New House Build Programme	2,186	0
Revenue contributions from the HRA	1,536	1,112
Total Funding	**7,656**	**4,896**

The Revenue Expenditure Funded from Capital under Statute relates to:

	2016/17 £'000	2017/18 £'000
Expenditure type:		
New Build Programme-Pre Construction Expenditure	4	0
Non HRA Properties/Leaseholders Expenditure	47	135
Total	**51**	**135**

5. Summary of HRA Capital Receipts

	2016/17 £'000	2017/18 £'000
Receipts from the sale of land	(2)	(10)
Receipts from disposals of houses through the Right To Buy scheme	(1,697)	(1,279)
Total Capital Receipts	**(1,699)**	**(1,289)**

6. Tenants' Arrears

Tenants' Arrears at 3 April 2018 were analysed as follows:

Type of Debt	2016/17 £'000	2017/18 £'000
General Stock	163	151
Former Tenancies – General Stock	280	301
Former Tenancies - Garages	1	0
Court Costs – General Stock	38	48
Former Tenancy Arrears of Current Tenants – General	45	38
Rechargeable Repairs	74	79
Total Arrears	601	617
Percentage of Gross Rents (HRA)	**4.48%**	**4.32%**

The following provision has been made against possible non-collection of Housing Revenue Account debt:

	2016/17 £'000	2017/18 £'000
Opening Balance	530	509
Additional Provision made during year	30	28
Add Credit write-offs	2	7
Less amounts written off	(53)	(21)
Closing Balance	**509**	**522**

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